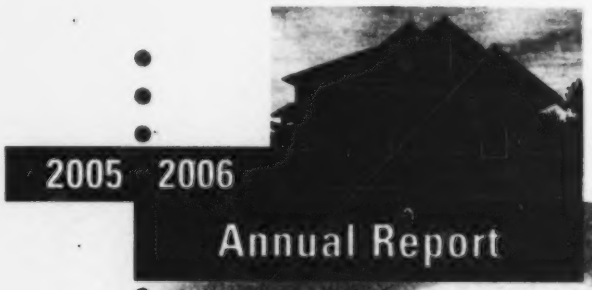
Homeowner
Protection Office

2005 2006 Annual Report



Our Mission is to Protect Buyers of New Homes from Undue Risk and Assist the Residential Construction Industry to Mitigate that Risk.

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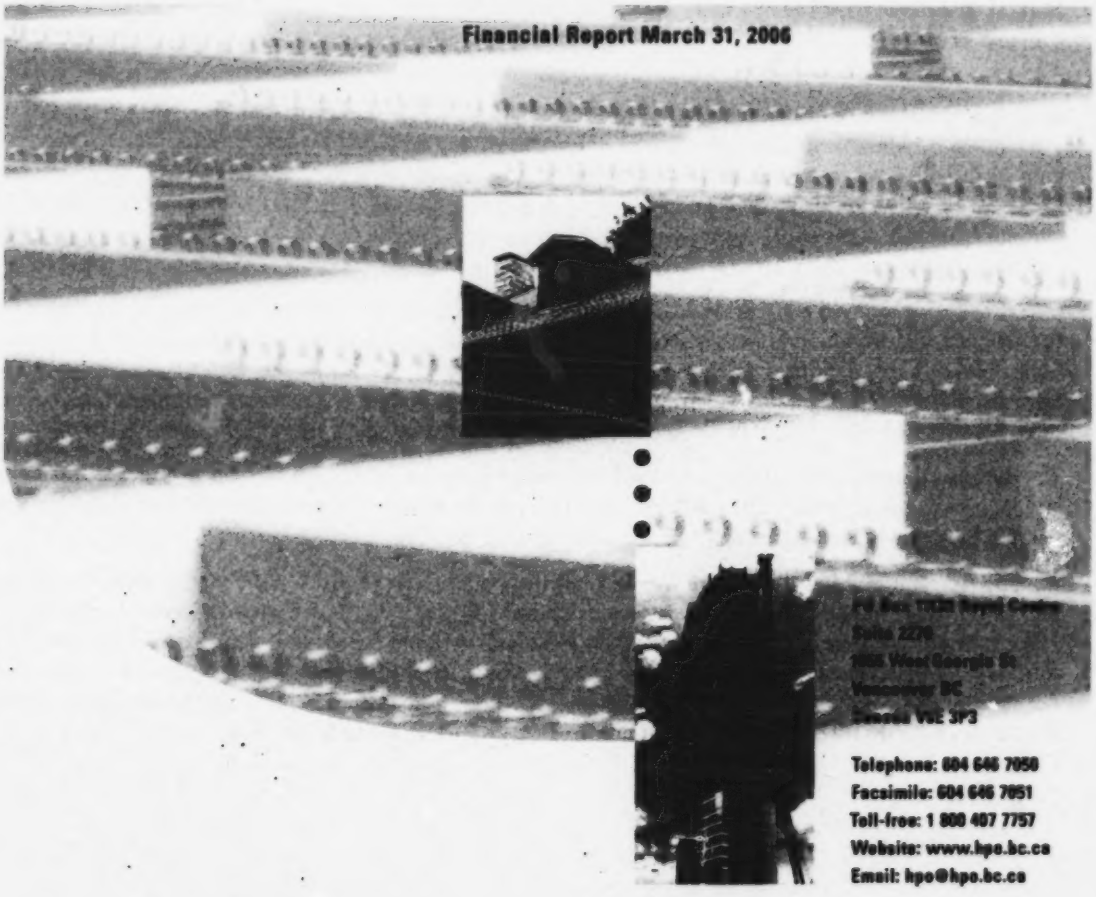

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Message from the Chair to the Minister

Ken MacLeod
Chair

Honourable Rich Coleman
Ministry of Forests and Range
Minister Responsible for Housing
Province of British Columbia

Minister,

I am pleased to provide the 2005/06 Annual Report for the Homeowner Protection Office (HPO).

The HPO's financial position remains strong with a net income of $7.1 million in 2005/06. As a result of the favourable housing market, this net income represents a significant increase from 2004/05 at $4.0 million. Expenditures rose modestly at $21.4 million, up $0.5 million from the previous year due to increased demand for the HPO's services.

Residential builder licences issued for new home construction broke the 4,000-mark for the first time this year. In total there were 4,594 licences issued to residential builders during the fiscal year. New home construction similarly has continued to rise with an additional 41,946 homes enrolled or exempted in 2005/06 compared to 37,193 new homes in 2004/05.

Although the number of Reconstruction Loan applications received continues to decrease every year, loan amounts approved continue to rise, mainly as a result of increasing construction costs. Despite these higher loan amounts, the Reconstruction Loan Program continues to ensure that homeowners do not have to lose their homes to foreclosure due to the cost of building envelope repairs. Currently, 97% of owners of homes with completed building envelope repairs under our loans program have regained values in their homes equal to or greater than the cost of repairs. This recovery rate significantly surpassed our performance target for this year.

Our research and education efforts reached new levels of service this year. *Builder Insight*, a new technical bulletin, was developed to assist the industry in its understanding of construction issues which can affect durability. The industry continues to show great interest in our Building Smart seminars which provide practical information on the design and construction of houses. More than 1,700 industry representatives participated in these sessions this year which are developed to address information gaps specifically identified by licensed builders.

Favourable interest rates and the considerable demand for housing have put pressure on homebuyers to sometimes make rapid decisions. The HPO remains active in the timely dissemination of valuable information which enables homebuyers to make more informed purchasing decisions.

As the HPO continues to pursue the direction set out by you as a result of our Futures Report recommendations for the future of the HPO and the *Homeowner Protection Act* ("*Act*"), we issued a discussion paper in August 2005 entitled "Raising the Bar: Enhancing Professionalism in the Residential Construction Sector". This discussion paper addressed the significant challenges that remain in the industry including: abuse of the owner-builder exemption, the need for the HPO to gain proper gate-keeping powers to ensure compliance with the *Act* as well as industry's desire to introduce minimum core competencies as a condition of licensing.

Message from the Chair to the Minister

The feedback obtained through the corresponding consultation period formed the basis for the HPO Board's recommendations to you. Following those recommendations, the HPO set in motion a collaborative process with industry to develop what a new licensing system, including core competency requirements, might look like.

This collaborative process has been described as a history-making initiative for British Columbia — the outcome of which will be studied by other provinces and jurisdictions in the world. In 2006/07 the HPO Board will obtain the industry's findings as a result of the collaborative process and provide our recommendations for your consideration. Any possible legislative changes resulting from these processes could have far-reaching impacts such as increased effectiveness of the HPO, a better protected consumer and a more level playing-field for licensed builders.

We look forward to the year ahead as we continue to pursue our vision to enable a robust and respected residential construction industry in which consumers have confidence and industry partners have the ability to thrive.

Accountability Statement

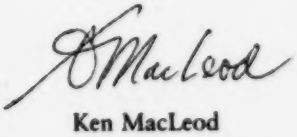
The Homeowner Protection Office 2005/06 Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The Board is accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of the HPO for the twelve months ended March 31, 2006. All significant decisions, events and identified risks as of the annual report date have been considered in preparing the report.

The information presented is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to our service plan. The measures presented are consistent with the HPO's mission, goals and objectives, and focus on aspects critical to the organization's performance

The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

Sincerely,



Ken MacLeod
Chair

Organization Overview

Homeowner Protection Office

Industry representatives participate in a collaborate process to establish recommendations for furure residential builder licensing requirements in British Columbia.

Who We Are

The Homeowner Protection Office (HPO) is the provincial Crown corporation established in 1998 under the authority of the *Homeowner Protection Act (Act)*. The mandate of the *Act* is to:

- strengthen consumer protection for buyers of new homes
- help bring about improvements to the quality of residential construction, and
- support research and education respecting residential construction in British Columbia.

What We Do

The HPO, currently with 35 FTEs (full-time equivalents), is responsible for:

- licensing residential builders and building envelope renovators province-wide
- monitoring the performance of the third-party home warranty insurance system offered by the private sector
- carrying out research and education which benefits the residential construction industry and consumers, and
- administering financial assistance programs for owners of leaky homes in the form of the Reconstruction Loan Program and the Province's PST Relief Grant Program.

Where We Are

The HPO is located in downtown Vancouver and has field staff assigned to various territories across the province to ensure compliance with the *Act* and regulations and to maintain our partnership with municipalities and regional districts.

Who We Serve

The HPO serves homebuyers, homeowners (particularly owners of homes with warranty insurance and owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with warranty providers, building officials, industry and related consumer associations, governments including local governments and Canada Mortgage and Housing Corporation, educational institutions, research organizations, architects, engineers, financial institutions, property managers, the legal community and the real estate community.

Our Strategic Foundation

The HPO's strategic foundation is in keeping with the mandate of the *Homeowner Protection Act*.

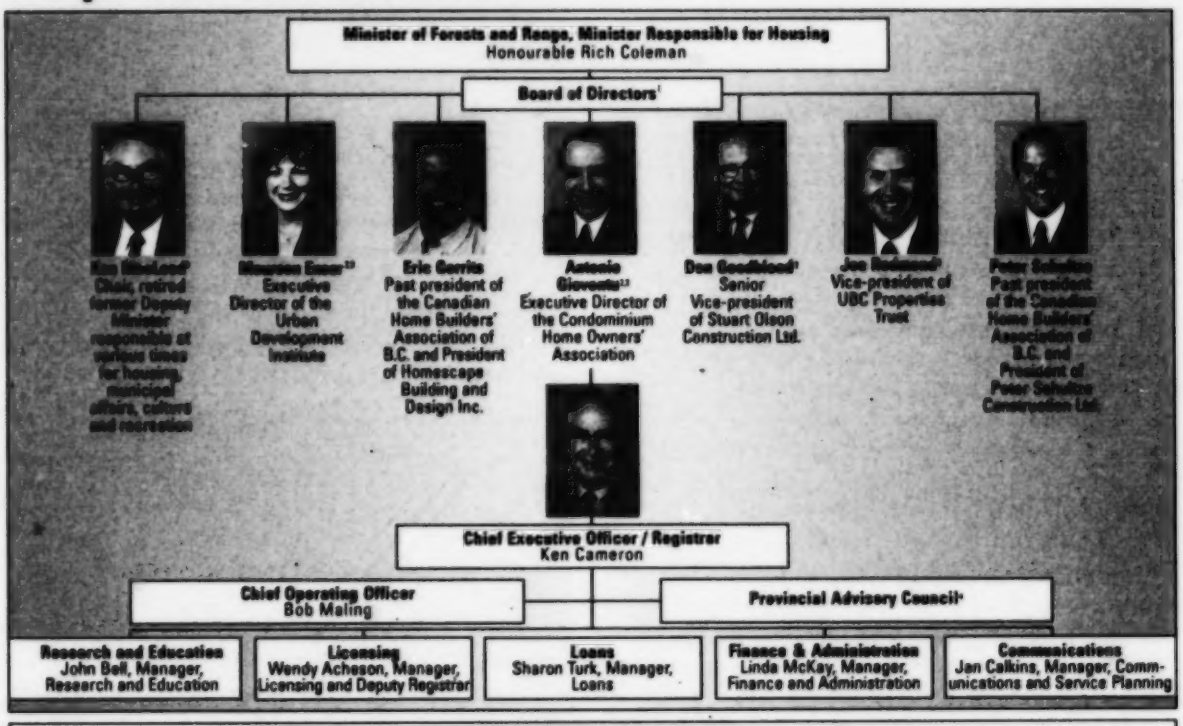
Our Vision — A professional organization that directly acts to enable a robust and respected residential construction industry in which consumers have confidence and industry partners have the ability to thrive.

Our Mission — To protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

Our Values — We are guided by our commitment to:

- fairness
- competence
- common ground, and
- usefulness.

Corporate Governance


Minister of Forests and Range, Minister Responsible for Housing
Honourable Rich Coleman
Board of Directors[1]
Eric Gerrits
Past president of the Canadian Home Builders' Association of B.C. and President of Homescape Building and Design Inc.
Antonio Gioventu[2,3]
Executive Director of the Condominium Home Owners' Association
Dan Goodkind[2]
Senior Vice-president of Stuart Olson Construction Ltd.
Chief Executive Officer / Registrar
Ken Cameron
Chief Operating Officer
Bob Maling
Provincial Advisory Council[4]
Research and Education
John Bell, Manager, Research and Education
Licensing
Wendy Acheson, Manager, Licensing and Deputy Registrar
Loans
Sharon Turk, Manager, Loans
Finance & Administration
Linda McKay, Manager, Finance and Administration
Communications
Jan Calkins, Manager, Communications and Service Planning

Department Responsibilities

Research and Education	Licensing	Loans	Finance and Administration	Communications
Building science research Consumer/industry education and training Dissemination of research results and support of establishing "best practices" Provision of input and advice on amendments to the building code	Licensing of residential builders and building envelope renovators Maintenance of registry of licensed builders and building envelope renovators Administration of the *Homeowner Protection Act* and regulations as they pertain to residential builder licensing, home warranty insurance and exemptions for residential construction Collection of license fees	Delivery of the Reconstruction Loan Program Administration of the PST Relief Grant Program Participation at on-site strata meetings to provide information on financial assistance programs	Financial reporting Human resources Information systems Administration of the Office Budgetary planning and expenditure control	Issues management, communications planning and media relations Development and implementation of strategies for consumer and industry communications Management of information line, website, events and publications Support for HPO's education mandate Development of Annual Report and Service Plan

[1] The Board is appointed by the Lieutenant Governor in Council and is responsible for the governance of the HPO.
[2] Member of the Audit and Finance Committee which assists the Board in fulfilling its fiduciary and oversight responsibilities relating to financial reporting and the audit process.
[3] Member of the Governance Committee which conducts the CEO's performance evaluation and recommends the implementation strategy for the Best Practice Guidelines for governance.
[4] The Provincial Advisory Council on Homeowner Protection provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The council includes representatives from the following organizations:

Architectural Institute of B.C.	Condominium Home Owners' Association	Building Officials Association of B.C.
B.C. Construction Association	Co-operative Housing Federation of B.C.	Independent Contractors and Businesses Association of B.C.
Union of British Columbia Municipalities	City of Vancouver	
Canadian Home Builders' Association of B.C.	Home warranty insurance provider	B.C. Federation of Labour – 2 representatives
Association of Professional Engineers and Geoscientists	Urban Development Institute	

The Homeowner Protection Office complies with the Board Resourcing and Development Office's *Best Practice Guidelines for Governing Boards of the BC Public Sector Organizations*. The HPO's Board of Directors Governance Manual can be found on the "HPO Overview" page of our website at www.hpo.bc.ca.

Report on Performance

BUSINESS AREAS AND OUTPUTS

Licensing and Home Warranty Insurance

The Homeowner Protection Office (HPO) is responsible for licensing residential builders and building envelope renovators, monitoring the performance of the mandatory, third-party home warranty insurance system for new construction and building envelope renovations, and ensuring that all new homes built in the province are either covered by home warranty insurance or eligible for an appropriate exemption.

More than 36,000 new homes were enrolled with mandatory home warranty insurance as of the end of this fiscal year.

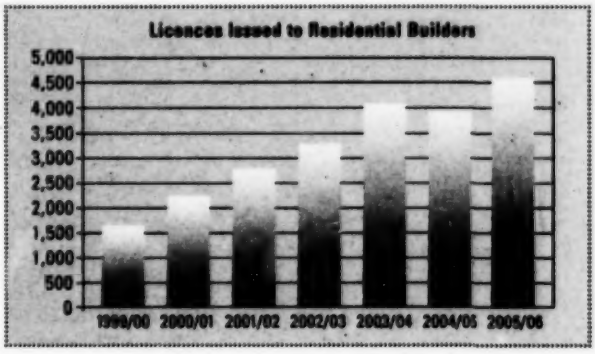
The system administered by the HPO establishes a solid foundation for homebuyer protection and the improvement of residential construction in British Columbia. More than 36,000 new homes were enrolled with mandatory home warranty insurance as of the end of this fiscal year, the highest yearly total since the inception of the *Homeowner Protection Act (Act)*.

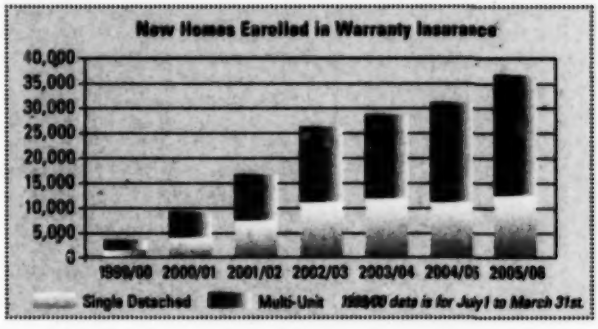
Licensing

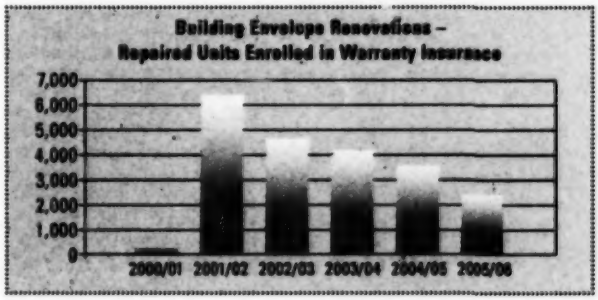
Under the *Act*, residential builders must be licensed by the HPO and arrange for home warranty insurance in order to obtain a building permit or prior to commencing construction of a new home. Similarly, building envelope renovators are also required to be licensed by the HPO and provide home warranty insurance on building envelope renovations for multi-unit buildings not more than 25 years old where those renovations exceed a specified dollar value and percentage of building face to be removed or repiaced. This fiscal year has seen a record number of residential builders licensed in the province. A searchable registry of licensed residential builders and building envelope renovators is available on the HPO website.

2005/06 Licensing Highlights

- 4,594 licences issued to residential builders (new and renewal)
- 36,484 new homes enrolled in home warranty insurance
- 4,076 owner-builder exemptions (single detached homes) issued
- 1,386 units with rental warranty exemptions (multi-unit)
- 65 licences issued to building envelope renovators (new and renewal)
- 2,370 building envelope renovations with home warranty insurance (units)







Report on Performance Licensing and Home Warranty Insurance

Home Warranty Insurance

In B.C. regulations under the *Act* set out minimum standards of home warranty insurance coverage for both new homes and residential building envelope renovations. All new homes constructed by Licensed Residential Builders are required to be covered by the strongest construction defect warranty in Canada, comprising 2 years on defects in labour and materials (some limits apply), 5 years on defects in the building envelope including water penetration and 10 years on defects in the structural components of the home (known as 2-5-10 year home warranty insurance).

Minimum standards of home warranty insurance for applicable residential building envelope renovations include 2 years on labour and materials and 5 years on the building envelope including water penetration. The number of units enrolled in warranty insurance for building envelope repairs decreased this fiscal year over previous years mainly due to amendments to the legislation that came into affect on July 2004 that removed requirements for all but major repairs.

Licensed Residential Builders work in partnership with their home warranty insurance providers to provide warranty service to consumers of new homes. However, the policy of home warranty insurance is ultimately the responsibility of the home warranty insurance provider (insurance underwriter), ensuring a high level of protection for a new homebuyer in the event that the builder is no longer in business or refuses to respond to the purchaser's concerns.

Home warranty insurance may only be provided by insurance companies that are authorized and regulated by the Financial Institutions Commission. As of March 31, 2006 there were four companies offering home warranty insurance in British Columbia. The Homeowner Protection Office maintains regular contact with these insurance companies and their agent/brokers in order to communicate concerns, share information, work on streamlining and standardizing processes, and generally ensuring that home warranty insurance is a viable and effective system for consumers, builders, and warranty providers alike.

Summary of New Homes Enrolled in Warranty Insurance and Warranty Exemptions 2005/06

	Category of New Home	Number of Homes
Homes Enrolled in Warranty Insurance[1]	Single detached homes	12,630
	Homes in multi-unit buildings (two or more units)	23,854
	Total	36,484
Homes with Warranty Exemptions[2]	Single detached (owner-builder homes)[3]	4,076
	Multi-unit rentals	1,386
	Total	5,462
Total New Homes Enrolled/Exempted		41,946

[1] New homes enrolled include homes constructed by Licensed Residential Builders for which the HPO has received verification from the home warranty insurance company that warranty insurance is in place. Note that minor adjustments may be made to these figures over time as the verification of new enrollments from home warranty insurance companies is received by the HPO on an ongoing basis.

[2] Owner-built homes are not required to have home warranty insurance (although home warranty insurance may be purchased by the owner-builder if desired), but are subject to the 10-year statutory protection provisions of the *Homeowner Protection Act*. Homes constructed under the multi-unit rental exemption from home warranty insurance requirements must be constructed for rental purposes and register a restrictive covenant on title restricting the sale of any dwelling unit for a ten-year period.

[3] The number of owner-builder exemptions issued is expressed as the number of Owner Builder Declaration and Disclosure Notices that have been verified for eligibility and issued to the owner-builder by the Homeowner Protection Office. This form must then be completed and presented to the municipality by the owner-builder when applying for a building permit (or completed and returned to the HPO if the proposed owner-built home is in an unincorporated area). It is estimated that 10-15% of owner-builder exemptions issued are not acted upon by the individual.

Buyers of new homes in B.C. benefit from the 2-5-10 year warranty — the strongest construction defect insurance in Canada.

Report on Performance Licensing and Home Warranty Insurance

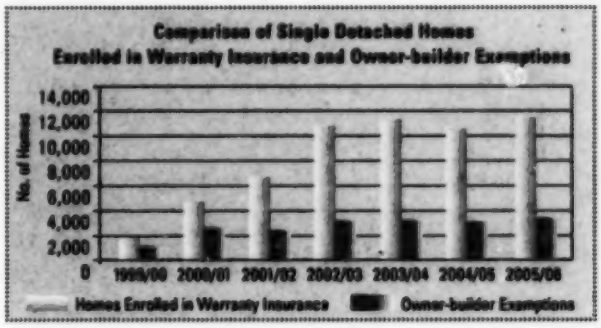
Owner-built Homes and Purpose-built Rentals

Individuals who want to build a detached home for their own personal use are neither required to be licensed nor to provide home warranty insurance. However, owner-builders are subject to the statutory protection provisions of the *Act* that are intended to ensure a minimum level of consumer protection if an owner-built house is sold within the first ten years. Currently, owner-builders are only eligible for this exemption again 18 months following the occupancy of a previous owner-built home.

One other exemption from home warranty insurance provided by the HPO under the authority of regulation is an exemption for multi-unit residential buildings built for rental purposes only. Rental buildings must be built by a Licensed Residential Builder and the owner must register a covenant on title restricting the sale of any individual units in the buildings for a period of 10 years following occupancy. During this fiscal year, there were a number of rental buildings exempted. With the strong housing market this year, Licensed Residential Builders of a number of buildings originally exempted as rental buildings opted to obtain home warranty insurance (retroactive to the date of occupancy) to offer these units for sale instead.

Compliance

Administering the *Act* involves significant compliance efforts on the part of the HPO, ensuring that individuals and companies required to be licensed under the legislation are licensed and that new homes are all enrolled with warranty insurance unless they are legally entitled to an exemption. Most compliance with the *Act* is sought and obtained on a voluntary basis; however, where necessary, the HPO submits cases to Crown Counsel to consider for prosecution. The HPO may also pursue court-ordered injunctions to prevent the sale of homes with home warranty insurance or to halt the construction of new homes without warranty insurance or new homes under construction by unlicensed builders.



A significant portion of HPO staff time is currently spent reviewing and monitoring owner-builder exemptions to ensure that individuals actually in the business of home building are not abusing the exemption to avoid licensing and home warranty insurance requirements put in place to protect consumers. In addition to ensuring adequate protection is in place for new homebuyers, these compliance efforts provide a more level playing-field for Licensed Residential Builders.

Compliance efforts also include ensuring that Licensed Residential Builders remain in good standing and consistently enroll new homes in home warranty insurance. HPO staff also work closely and cooperatively with municipalities and regional districts throughout British Columbia to ensure that building permits for new homes are not issued without proof of home warranty insurance or an applicable exemption.

Report on Performance Research and Education

BUSINESS AREAS AND OUTPUTS (cont'd)

Research and Education

The HPO's research and education initiatives support the mandate of the *Homeowner Protection Act (Act)* by ensuring the conduct of research relative to the continuous improvement in the quality of residential construction. Carried out for the benefit of the residential construction industry and consumers, this research facilitates the development and application of best practices and standards. Initiatives are also aimed at providing education and information to consumers, particularly for buyers of new homes and residential strata councils.

The HPO partners with industry, consumer groups, educational institutions and other levels of government to leverage additional resources and expertise for these initiatives.

Building Industry Research and Education

The HPO works with industry and other partners to bring about efficient and cost-effective building science research and education which is both current and relevant to the residential construction industry. These initiatives help to ensure that new technologies and good building practices are appropriately integrated into industry practice and reduce the likelihood of negative impacts on the building envelope or other components.

The province-wide delivery of the HPO's Building Smart education seminar series continued in 2005/06. Delivery of the spring and fall sessions was expanded to include Terrace and Powell River for a total of 16 communities in B.C. Overall attendance increased by 21% for a total of 1,700 participants, the majority of whom were Licensed Residential Builders.

Three new research projects were initiated on the topics of the compatibility of ACQ (Alkaline Copper Quaternary) treated wood (preserved wood) with

2005/06 Building Industry Research and Education Highlights

The following research projects were initiated during the fiscal year:

- The first in a series of *Builder Insight* technical bulletins on new building technologies, emerging technical issues and best practices in residential construction
- An update and expansion of the HPO's on-line Building Envelope Research Bibliography in partnership with British Columbia Institute of Technology (BCIT)
- Field investigations and research on the application of ACQ treated wood and use of metal fasteners and connectors in residential construction in partnership with the Canadian Home Builders' Association of BC (CHBA-BC)
- Field measurement of wind-driven rain on buildings in the B.C. coastal climate in partnership with BCIT and Canada Mortgage and Housing Corporation (CMHC)
- Investigation of indoor humidity control via mechanical ventilation in coastal/maritime climates in multi-unit residential buildings in conjunction with CMHC, and
- An update and expansion of the course on building design and construction in conjunction with the UBC Real Estate Division and the Sauder School of Business.

Responding to the request of the Prince George Home Builders' Association, the HPO delivered a special session of past Building Smart seminars #1-3.

HPO's research and education initiatives are carried out for the benefit of the residential construction industry and consumers.

Report on Performance Research and Education

metal fasteners and connectors, field measurement of wind-driven rain in coastal B.C., and an investigation of indoor humidity control via mechanical ventilation in multi-unit residential buildings.

The HPO launched a new industry publication, *Builder Insight*, designed to provide information in an easy-to-read format on new building technologies, research results, emerging technical issues and good building practices. New on-line resources were made available to the public on the HPO's website on the topics of: energy efficiency, sustainability and green building programs, and building code information for residential construction.

2005/06 Building Industry Research and Education Highlights
as of March 31, 2006

The following projects were underway or completed during the fiscal year:

- Two Building Smart seminars:
  1. Soils, Foundations, Crawlspaces and Basement Wall Finishing, and
  2. Attics, Roofs, Balconies and Decks

  were developed and delivered. A total of 31 seminars were presented in 16 communities across B.C with more than 1,700 attendees.
- A study of the effects of green building rating systems on the durability of buildings and the building envelope is currently underway in partnership with CMHC.
- The development of Best Practice Guide — Windows is currently underway in partnership with CMHC and Natural Resources Canada.
- The second biennial Licensed Residential Builder survey was carried out in the fall of 2005.
- A study on the performance monitoring of rainscreen wall assemblies continued, in partnership with BC Housing and CMHC.
- The release of the Research Report on Poured-in-place Concrete Wall Performance in coastal B.C. in partnership with CMHC.
- The pilot delivery and evaluation of a basic level course on wood-frame house construction, in partnership with Camosun College, Thompson Rivers University, and Coquitlam Continuing Education.

Builder Insight is a new HPO publication which informs the industry on new building technologies, research results, emerging technical issues and good building practices.

Report on Performance Research and Education

*Owners and strata managers of multi-unit homes can learn more about the maintenance of windows, doors and other components through the HPO's new **Maintenance Matters** bulletins.*

The Maintenance Matters bulletins draw attention to key maintenance issues and provide basic information to help prevent avoidable problems.

Consumer Information

The HPO provides a range of consumer information to help bring about a better informed and protected consumer. This information helps homebuyers to make more informed purchasing decisions, carry out proper maintenance of new homes and strata-titled common property, understand home warranty insurance, and be informed of HPO financial assistance programs for owners of leaky homes.

This year the HPO launched a new publication series, *Maintenance Matters*, designed to provide information on building envelope maintenance to strata owners, property/maintenance managers, strata councils and residents of multi-unit residential buildings. The bulletins draw attention to key maintenance issues and provide basic information to help prevent avoidable and sometimes expensive problems resulting from inadequate maintenance.

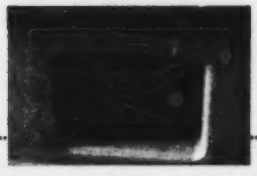
Initiatives under development will further help to promote consumers' understanding in several areas, such as buying a new home and the home warranty insurance system including the roles and responsibilities of all participants in these areas.

At the request of strata councils considering their options with respect to building envelope rehabilitation, the HPO continued to attend strata council meetings to provide information on financial assistance programs for the repair of leaky homes and occasionally meet with building envelope consultants to help interpret requirements for licensing and warranty insurance.

In the fall of 2005 the HPO convened the Consumer Organization Round-Table to support discussion and dialogue on issues pertaining to owners and buyers of new homes, and to obtain input on new and emerging consumer issues and information needs.

2005/06 Consumer Information Highlights
As of March 31, 2006

- Release of the first four building envelope maintenance bulletins in a new series called *Maintenance Matters* in partnership with CMHC, Polygon Homes Ltd. and the Condominium Home Owners' Association. Topics included: Paints, Stains and Coatings; Maintaining Your Roof; Avoiding Condensation Problems; and Residential Windows and Exterior Doors.
- Participation at the Greater Vancouver Home Builders' Association's *First-time Homebuyers Seminar*
- Attended 38 on-site strata meetings to provide owners with information on financial assistance programs for the repair of leaky homes.
- 32 articles published on HPO consumer information resources in publications with a homebuyer readership.
- 27,180 callers were assisted through the HPO's 1-800 toll-free information line.
- 249,202 website visitors obtained information on HPO programs.
- Participated in 14 trade and consumer shows throughout the province.



Report on Performance Financial Assistance

BUSINESS AREAS AND OUTPUTS (cont'd)

Financial Assistance

The Homeowner Protection Office offers two financial assistance programs for owners of leaky homes – the Reconstruction Loan Program and the PST (Provincial Sales Tax) Relief Grant.

Reconstruction Loan Program

The Reconstruction Loan Program was established to ensure that owners do not have to lose their homes to foreclosure due to the cost to repair premature building envelope failure.

The Reconstruction Loan Program provides eligible owners with no-interest loans for the repair of leaky buildings including multi-unit as well as single detached homes. An owner could be eligible if:

- the owner does not have adequate savings, equity or cannot qualify for a conventional loan to pay for building envelope repairs. Leaky housing co-operatives can also be eligible under the program, and
- the building is no more than 25 years old and is confirmed to be "premature building envelope failure" by an architect or engineer.

Each no-interest repair loan is designed to fit the unique circumstances of the homeowner.

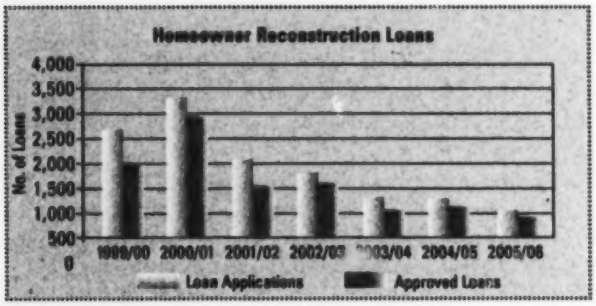
In most cases, owners make monthly principal-only payments which are set at affordable rates by the HPO through one-on-one consultations with the applicants. The HPO pays the interest on the loan directly to the owner's financial institution on behalf of the owner. In some cases, often seniors on a fixed income, even the minimum payment of $50 per month is not affordable. The HPO accommodates these owners through a deferred payment loan which allows the homeowner to receive the full amount required for the repair and the homeowner does not have to make any payments for as long as they live in the home.

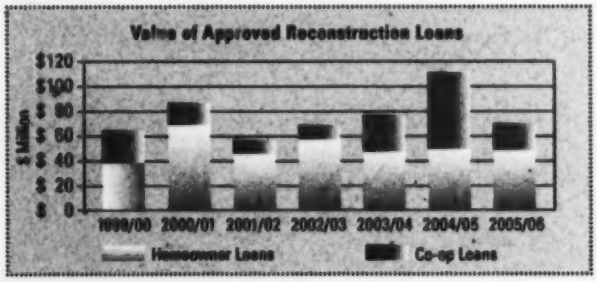
At the request of a strata council, HPO loan officers participate in on-site strata meetings to offer information about the financial assistance programs of the HPO. Our toll-free information line (1-800-407-7757) is also available to answer general enquiries about HPO programs including financial assistance.

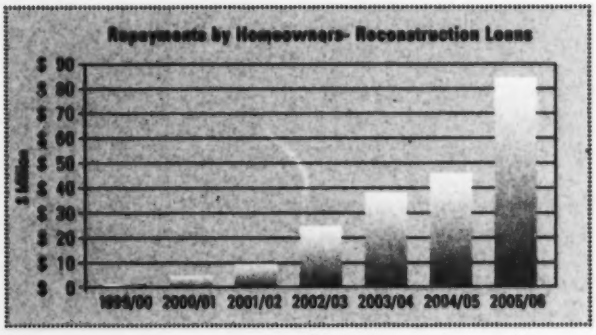
2005/06 Reconstruction Loan Program Highlights
as of March 31, 2006

- During the 2005/06 fiscal year, 834 homeowner loans were approved with a total value of $49.3 million.
- The average homeowner loan amount since the program's inception was $31,704 as of March 31st, 2006.
- Deferred payment loans represented 19% of the number of funded homeowner loans, totaling more than $8.0 million in financial assistance.
- Homeowners made loan repayments totaling $83.6 million during the year.
- The HPO approved four housing co-operative loans totaling $8.0 million and representing 161 units. The total value of housing co-operative loans approved, which included increases to loan amounts for 14 housing co-operatives approved from past years, was $24.0 million. (However, CMHC cancelled one 61-unit housing coöperative repair project which was previously approved for a Reconstruction Loan.)
- The per unit value of the approved housing co-operative repair loans since the program's inception was $62,300 as of March 31, 2006.
- Since the HPO's inception in 1998, 11,491 homeowner loans and 54 co-op loans (representing 2,993 units) have been approved totaling more than $550.8 million in financial assistance.

Report on Performance Financial Assistance







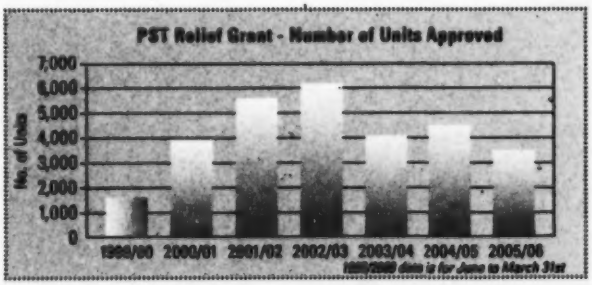
Multi-unit buildings as well as single detached homes are eligible under the program.

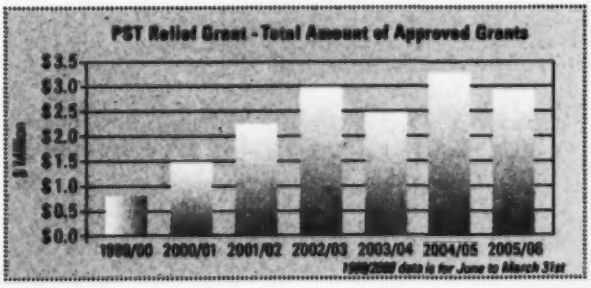
PST (Provincial Sales Tax) Relief Grant

The PST Relief Grant was established to provide tax relief to owners of homes with completed building envelope repairs. This program provides a rebate on the approximate cost of the Provincial Sales Tax on the repair. About 40% of the repair cost is usually subject to Provincial Sales Tax. Multi-unit buildings as well as single detached homes are eligible under the program. Strata councils apply for the grant on behalf of all owners in the case of multi-unit, strata titled homes.

2005/06 PST Relief Grant Highlights
(as of March 31, 2006)

- 74 applications representing more than 3,500 homes were approved for PST Relief Grants totaling $2.9 million
- Since the PST Relief Grant was introduced in 1999, $16.2 million in grants to owners in more than 29,500 homes have been approved with an average grant per home of $544.



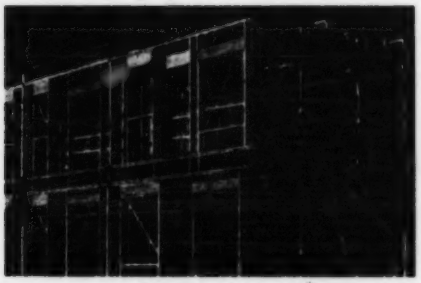


Performance Measures, Targets and Results

This section reports on the actual performance of the Homeowner Protection Office relative to the performance measures and targets identified for the 2005/06 fiscal year as set out in the 2005-2008 Service Plan Update. Measures include satisfaction and awareness levels as well as indicators of effectiveness and responsiveness in various program areas. Historical results are presented along with benchmark performance of similar organizations or published industry averages where available.

The focus of this report is on performance for 2005/06. Future targets for the three-year period of 2006/07 to 2008/09 are also shown to provide information on performance expectations. To ensure that readers have up-to-date information, these future targets are drawn from the most recent 2006-2009 Service Plan as several targets have been changed from the previous 2005-2008 Service Plan and 2004/05 Annual Report. These changes are noted and described at the end of this section under "Notes on Performance Measures and Data Sources".

A summary of the HPO's strategic goals, objectives, strategies and mission is shown on page 15.



Measures include satisfaction and awareness levels as well as indicators of effectiveness and responsiveness in various program areas.

Summary of Results

The HPO's 2005-2008 Service Plan Update sets out 15 performance targets for 2005/06. A summary of the results is presented below.

Performance target met or exceeded:

- Recovery of home values following building envelope renovation
- Research results and best practices disseminated through symposiums, seminars or workshops
- Research results incorporated into building standards and best practices
- Timeliness of licensing decisions on completed applications

Progress was made towards meeting the target:

- Builder satisfaction with the licensing system
- Reconstruction loan default rate

Target not met:

- Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption
- Builder rating of their overall relationship with their warranty provider
- Resources leveraged by the HPO through other funding partners

Performance not measured in 2005/06:

- Homebuyer awareness of consumer protections under the *Homeowner Protection Act*
- Homeowner satisfaction with home warranty insurance
- Homeowner satisfaction with the quality of home construction
- Homeowner satisfaction with the building process
- Percentage of homes enrolled in warranty insurance with claims within industry norms
- Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program

Data for the five performance measures not measured in 2005/06 is gathered through the biennial consumer survey that was last carried out in 2004/05. These measures will be reported in next year's annual report.

Summary of HPO Mission, Goals, Objectives and Strategies

Mission Statement

Protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

	1	2	3	4	5
Goals	**Professionalization of the residential construction sector**	**Informed and protected consumers**	**Continued viability of the home warranty insurance system**	**Become a strategic centre for building industry research**	**An aligned, focused and capable organization**
Objectives	"Raise the bar" for Licensed Residential Builders Address black-market building Better perform gate-keeping duties More information on pubic registry	Increase communications and education initiatives Established standard of information for consumers Owners of leaky homes do not have to lose their homes	Ensure the availability, affordability and effectiveness of home warranty insurance Ensure home warranty is in place where coverage is required	Conduct and disseminate results on research related to continuous improvement in the quality of residential construction Facilitate the use of research in the development and applications of best practices	Ensure HPO remains lean, agile, rigorous and resourced
Strategies	Work collaboratively with industry and consumers Seek legislative change where needed Co-operation and information sharing with other organizations to address black-market building Support and strengthen appropriate education and training programs offered by industry and others	New initiatives and information products Increase homeowner satisfaction in key areas Provide financial assistance to owners of leaky homes	Ensure home warranty insurance is a viable business Warranty claims are evaluated fairly Ensure continued integrity of home warranty insurance system Seek additional authority if needed to improve performance	Facilitate access of research to industry and consumers related to the performance and durability of new and building envelope renovated homes Maintain current knowledge of the state of consumer confidence Identify knowledge and research gaps in residential construction Promote best practices Owners of new homes aware of responsibilities	Improved employee performance evaluation and planning system Information technology infrastructure improvements

Performance Measures, Targets and Results

Goal One: Professionalization of the Residential Construction Sector

Builder Satisfaction with the Licensing System

Year	Target	Actual
2003/04	Collect baseline data	83%
2004/05	Not surveyed	–
2005/06	85% or higher builder satisfaction	87%
2006/07	Not surveyed	
2007/08	90% or higher builder satisfaction	
2008/09	Not surveyed	

This measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Baseline data was obtained through a 2003/04 survey of all Licensed Residential Builders in the province (see note on page 27 for a further description of this survey). The second biennial builder survey was carried out in 2005/06.

The 2005/06 survey found that 87% of Licensed Residential Builders were very or somewhat satisfied with the HPO licensing system. Sub-components of satisfaction tracked include:

- 82% satisfaction with the rules/requirements
- 88% satisfaction with the application process
- 87% satisfaction with the renewals process, and
- 91% satisfaction with timeliness of licensing decisions.

Result: Progress made towards meeting the target.

Builders' Rating of the Effectiveness of the HPO's Compliance Efforts to Monitor and Enforce Licensing and Home Warranty Insurance Requirements and the Owner Builder Exemption

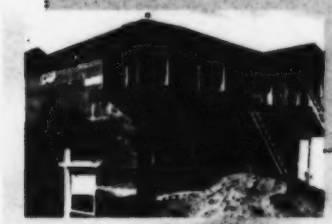
Year	Target	Actual
2003/04	Collect baseline data	72%
2004/05	Not surveyed	–
2005/06	75%	70%
2006/07	Not surveyed	
2007/08	75% or higher builder satisfaction	
2008/09	Not surveyed	

This is a new measure introduced in the 2005-2008 Service Plan and replaces the former deleted measure of Investigations Resulting in Voluntary Compliance Under the *Homeowner Protection Act*. Data is obtained through the biennial licensed builder survey. It tracks the builders' rating of the effectiveness of the HPO's efforts to monitor and enforce compliance with the mandatory builder licensing and home warranty insurance requirements, and the owner-builder exemption provisions of the *Act*.

The 2005/06 survey of Licensed Residential Builders found that 70% of builders felt that the HPO's compliance efforts were very or somewhat effective, and 30% felt that they were ineffective. This result falls below the target of 75%.

(See note on page 27 for a description of the survey of Licensed Residential Builders and the change made to the 2007/08 target.)

Result: Target not met.



Performance Measures, Targets and Results

Goal Two: Informed and Protected Consumers

Homebuyer Awareness of Consumer Protections Under the *Homeowner Protection Act*

Year	Target	Actual
2002/03	Collect baseline data	73% awareness of builder licensing and 45% awareness of home warranty insurance
2003/04	Not surveyed	–
2004/05	80% awareness of builder licensing 55% awareness of home warranty insurance	69% awareness of builder licensing and 52% awareness of home warranty insurance
2005/06	Not surveyed	–
2006/07	80% awareness of builder licensing 60% awareness of home warranty insurance	
2007/08	Not surveyed	
2008/09	90% awareness of builder licensing 70% awareness on home warranty insurance	

This measure tracks prospective homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Data is obtained through a biennial consumer survey. (See note on page 27 for further description of the consumer survey and a change made to the future targets for this performance measure).

In 2004/05 progress was made towards meeting the target with a higher level of awareness of home warranty insurance among prospective homebuyers, rising to 52% in 2004/05 from 45% in 2002/03. Consistent with 2002/03, seven-in-ten prospective new homebuyers in 2004/05 claimed that they definitely knew that virtually all builders must be licensed to operate. Actual results, however, were below the targets set for 2004/05 of 55% awareness levels for home warranty insurance and 80% for licensing requirements.

Result: Performance not measured in 2005/06; will be reported in 2006/07 Annual Report.

Homeowner Satisfaction with Home Warranty Insurance

Year	Target	Actual
2002/03	Collect baseline data	83%
2003/04	Not surveyed	–
2004/05	85%	80%
2005/06	Not surveyed	–
2006/07	85%	
2007/08	Not surveyed	
2008/09	90%	

This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new homes. Data is obtained through a biennial consumer survey. (See note on page 27 for a description of the consumer survey and changes made to the targets for this performance measure.)

In 2004/05 the majority of new homeowners, 80%, continue to be very to somewhat satisfied with the protection provided by their warranty insurance. The proportion has declined slightly from the 83% reported in 2002/03. The actual result of 80% for 2004/05 was lower than the target of 85%. Satisfaction levels were consistent among owners of both single detached and multi-unit homes. First-time home buyers showed a higher degree of satisfaction at 84%.

Results from the 2002/03 survey reflect homeowners who were at the initial years of coverage, with the introduction of home warranty insurance requirements in July 1999. Data for 2004/05 reflects homeowners further along in their policy coverage periods which includes, at a minimum, two years on materials and labour, five years on building envelope and 10 years on structure.

Result: Performance not measured in 2005/06; will be reported in 2006/07 Annual Report.

Performance Measures, Targets and Results

Goal Two: Informed and Protected Consumers cont'd

Homeowner Satisfaction with the Quality of Home Construction

Year	Target	Actual
2002/03	Collect baseline data	93%
2003/04	Not surveyed	–
2004/05	Target not established (new measure)	91%
2005/06	**Not surveyed**	–
2006/07	95%	
2007/08	Not surveyed	
2008/09	95%	

This is a new measure introduced in the 2005-2008 Service Plan. It tracks the satisfaction with the quality of home construction among owners with warranty insurance on their homes. Data is obtained through a biennial consumer survey. As a new measure, targets have been established commencing in 2006/07.

Consistent with 2002/03 results, over 90% of homeowners in 2004/05 report being satisfied with the quality of construction of their homes. Specifically, 52% are very satisfied and 39% somewhat satisfied in 2004/05 for an satisfaction rate of more than 91%.

Satisfaction levels are slightly higher among those in single detached homes at 94% compared to multi-unit homes at 89%.

Result: Performance not measured in 2005/06; will be reported in 2006/07 Annual Report.

Homeowner Satisfaction with the Building Process

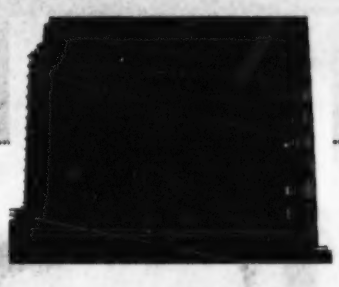
Year	Target	Actual
2004/05	Collect baseline data	83%
2005/06	**Not surveyed; establish target**	–
2006/07	88%	
2007/08	Not surveyed	
2008/09	90%	

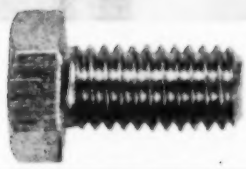
This is a new measure introduced in the 2005-2008 Service Plan. It tracks the satisfaction levels with the building process among homeowners with warranty insurance. Data for this measure is obtained through a biennial consumer survey. Baseline data was collected in the 2004/05 consumer survey.

Overall, 83% of homeowners were very or somewhat satisfied with the building process in 2004/05. This ranges from 79% satisfaction among homeowners who purchased a spec home on a pre-sale basis, to 92% satisfaction among homeowners who had their home custom built by a licensed builder. Further breakdown of the results include:

- 81% satisfaction overall with cost and budgeting
- 69% satisfaction with contractor/builder developer, and
- 64% satisfaction with time it took to build the home.

Result: Performance not measured in 2005/06; will be reported in 2006/07 Annual Report





Performance Measures, Targets and Results

Goal Two: Informed and Protected Consumers cont'd

Recovery of Home Values Following Building Envelope Renovations

Year	Target	Actual
2002/03	Collect baseline data	51%
2003/04	50% or more	74%
2004/05	60% or more	91%
2005/06	**80% or more**	**97%**
2006/07	95%	
2007/08	95% or more	
2008/09	95% or more	

This measure tracks the improvement of assessed values of homes following the completion of building envelope repairs. It is calculated as the percentage of homes that have recovered assessed values equal to or more than the cost of repairs to the homes. (See note on page 28 for a description of a change made to how this measure is calculated and targets.)

In 2005/06, 97% of homes recovered assessed values equal to or more than the cost of building envelope repairs. This exceeds the target of 80% or more, and is an increase from the previous year when 91% of homes had recovered this amount, reflecting continued housing demand and a continued rise in assessed value of homes.

Among the home values analyzed for this measure, the average pre-repair value had risen from $113,600 to $202,350 post repair. The analysis is based on 2005 assessed values and includes more than 9,350 homes in 519 buildings with completed building envelope renovations under the Homeowner's Reconstruction Loan program since 1998.

Result: Target met.

Reconstruction Loan Default Rate

Year	Target	Actual
2002/03	4% or less	1.8%
2003/04	4% or less	1.8%
2004/05	1% or less	1.8%
2005/06	**1% or less**	**1.7%**
2006/07	1.5% or less	
2007/08	1.5% or less	
2008/09	1.5% or less	

This measure tracks the effectiveness of the Reconstruction Loan program in helping to ensure that homeowners do not have to lose their homes as a result of building envelope repair costs. It compares the number of reconstruction loans in default to the total number of loans issued in the program. Data is obtained through the HPO loans database. (See note on page 28 for a description of changes made to future targets for this measure.)

The Reconstruction Loan Program provides no-interest loans to owners of leaky homes who would not otherwise be able to obtain financing or pay for repair costs related to premature building envelope failure, e.g., may be experiencing an overall high debt to equity ratio.

The actual default rate of 1.7% in 2005/06 is higher than the target rate of 1%, and represents an improvement over last year's rate of 1.8%.

The Reconstruction Loan Program default rate was slightly higher than the default rate of all residential loans or mortgages for B.C. and Canada which were less than 1.7% at 0.18% and 0.27% respectively as of December 2005 (Source: Canadian Bankers Association). This reflects the more difficult financial situation associated with recipients of the HPO's reconstruction loans as compared to housing loans in general.

Result: Progress made towards meeting the target.

Performance Measures, Targets and Results

Goal Three: Continued Viability of the Home Warranty Insurance System

Percentage of Homes Enrolled in Warranty Insurance with Claims within Industry Norms

Year	Target	Actual
2002/03	Collect baseline data	5%
2003/04	Not surveyed	–
2004/05	5% or less	4%
2005/06	4% or less	–
2006/07	3% or less	
2007/08	3% or less	
2008/09	3% or less	

Home warranty insurance includes as a minimum: 2 years on labour and materials, 5 years on the building envelope and 10 years on the structure of a home.

This measure is intended to compare the number of claims made by homeowners under their home warranty insurance policies to the number of homes enrolled during the specified period. (See note on page 28 for a description of warranty insurance claims.)

Results from the 2004/05 and 2002/03 homeowner satisfaction survey were used as proxy data for this measure, specifically the percentage of homeowners who indicated that they have experienced a problem with their home's workmanship, materials or structure, and who involved their warranty insurance company in resolving the problem. This proxy data is used in the absence of summary claims data provided to the HPO by warranty providers.

The 2004/05 consumer survey found that 4% of homeowners involved their warranty provider in resolving a problem with their home. This rate is lower than the target of 5% or less for the 2004/05 fiscal year.

Benchmark data from new home warranty organizations elsewhere in Canada has been researched. Tarion Warranty Corporation (formerly known as the Ontario New Home Warranty Program) reported that the number of homes with conciliations/claim inspections[1] in 2005 totaled 4,104 for 73,733 new home enrollments (including freehold and condominium units) for a calculated conciliation/claim inspections rate of 5.7%.

In 2005, the Alberta New Home Warranty Program experienced a conciliation incidence rate per enrollment calculated at 2.28%, based on 541 requests for conciliation and 23,697 enrollments (18,369 single family and 5,328 multi family). In 2005, the New Home Warranty Program of Saskatchewan reported conciliations per enrollment at 1.74% and a claims rate calculated at 1.2% based on 1,721 homes enrolled.

[1] Unlike the *Homeowner Protection Act* in B.C., the *Ontario New Home Warranties Plan Act 1976* legislates a system whereby homebuyers are protected by a mandatory builder's warranty obligation. A homeowner may request a conciliation if they believe that their builder is not honouring their obligation. A conciliation involves a meeting with the homeowner, builder and Tarion Warranty representative to determine whether the items at issue are covered under the terms of the builder's warranty. If a builder fails to abide by the results of a conciliation, the owner can submit a claim to Tarion for a breach of warranty.

Result: Performance not measured in 2005/06; will be reported in 2006/07 Annual Report.

Performance Measures, Targets and Results

Goal Three: Continued Viability of the Home Warranty Insurance System cont'd

Builder Rating of their Overall Relationship with their Warranty Provider

Year	Target	Actual
2003/04	Collect baseline data	87%
2004/05	Not surveyed	–
2005/06	90%	84%
2006/07	Not surveyed	
2007/08	92%	
2008/09	Not surveyed	

This is a new measure introduced in the 2005-2008 Service Plan. It tracks the Licensed Residential Builders' rating of their overall relationship with their warranty provider. Data for this measure is obtained through a biennial builder survey.

In 2005/06, 84% of builders felt they had a good or excellent relationship with their warranty provider. Specifically, 34% of builders rate the relationship as excellent and 50% rate it as good.

These results represent a slight decline over the result of 87% two years earlier, and falls below the target of 90%.

Subcomponents of this measure include:

- 70% rate the handling of complaints or claims from consumers as excellent or good,
- 37% rate the cost of warranty insurance as excellent or good, and
- 75% rate the ease of the application process for coverage as excellent or good.

Result: Target not met.

Homeowner Satisfaction with Home Warranty Insurance

Year	Target	Actual
2002/03	Collect baseline data	83%
2003/04	Not surveyed	–
2004/05	85%	80%
2005/06	Not surveyed	–
2006/07	85%	
2007/08	Not surveyed	
2008/09	90%	

This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new homes. Data is obtained through a biennial consumer survey. (See note on page 27 for a description of changes made to the targets for this performance measure.)

In 2004/05 the majority of new homeowners, 80%, continue to be very to somewhat satisfied with the protection provided by their warranty insurance. This percentage has declined slightly from 83% reported in 2002/03. At 80%, the actual result for 2004/05 was lower than the target of 85%.

Results from the 2002/03 survey reflect homeowners who were at the initial years of coverage, with the introduction of home warranty insurance requirements in July 1999. Data for 2004/05 reflect homeowners with policies at all years of coverage which includes, at a minimum, two years on materials and labour, five years on building envelope, 10 years on structure.

Result: Performance not measured in 2005/06; will be reported in 2006/07 Annual Report.

Performance Measures, Targets and Results

Goal Four: Become a Strategic Centre for Building Industry Research

Research Results and Best Practices Disseminated Through Symposiums, Seminars or Workshops

Year	Target	Actual
2000/01 2001/02-	During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.	HPO and its partners presented B.C.'s first 1-day Building Envelope Research Symposium profiling all HPO research projects carried out to date.
2002/03- 2003/04	During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.	HPO funded research profiled at 19 industry educational sessions which included the first five sessions of *Building Smart:* "Avoiding Moisture Problems in Houses" seminar.
2004/05- 2005/06	**During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.**	**The HPO held 52 Building Smart education seminars during this 2-year period. Major partner for the Innovations in Building Science Symposium in May/04. Release of the *Research Report on Poured-in-place Concrete Wall Performance in Coastal B.C.* in partnership with CMHC in 2005.**
2006/07	One major symposium or publication and over 20 educational sessions delivered	
2007/08	One major symposium or publication and over 20 educational sessions delivered	
2008/09	One major symposium or publication and over 20 educational sessions delivered	

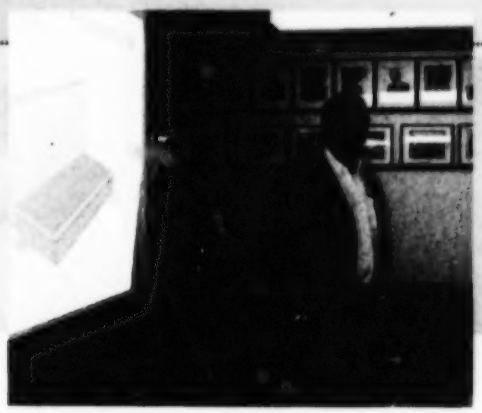
This measure focuses on the HPO's role in disseminating research results and helping to support the integration of new technologies and best practices in the industry through participation in major research publications, symposiums, and the delivery of educational sessions or workshops. (See note on page 28 for a description of changes made to future targets for this measure.)

Participant evaluation of the HPO's Building Smart education seminars is consistently high. For example, participants rated the most recent seminar "Attics, Roofs, Balconies and Decks" as follows:

- Usefulness of information presented: 4.5 out of 5
- Scope and relevance of materials appropriate: 4.4 out of 5
- Knowledge and effectiveness of presenter: 4.8 out of 5

HPO is the secretariat and participant of the Building Research Committee of the B.C. Building Envelope Council, and is a member on national, provincial and local Canadian Homebuilder technical, and education and training committees.

Result: Target met.



Performance Measures, Targets and Results

Goal Four: Become a Strategic Centre for Building Industry Research cont'd

Research Results Incorporated into Building Standards and Best Practices

Year	Target	Actual
2002/03	HPO participation on National Building Code committees and in development of best practices and training courses	HPO representative on National Building Code Standing Committees (2) on Houses and Environmental Separation, and CSA Strategic Steering Committee on Building Products and Systems.
2003/04	Participation in federal and provincial processes to update the current building code and to develop best practices and training courses.	Continued involvement in the committees noted above. As a follow-up to the research on water penetration resistance of windows, HPO entered into a partnership to co-fund the development of a best practice guide on windows.
2004/05	As above	Continued involvement in the committees noted above. Continued partnership with CMHC and Natural Resources Canada on the development of the Windows Best Practice Guide. Collaboration with provincial Building Policy Branch regarding release of the 2006 building code. Building Smart educational sessions presented building officials educational conferences.
2005/06	As above	As above
2006/07	As above	
2007/08	As above	
2008/09	As above	

This measure looks at the effectiveness of the HPO in helping to ensure that the results of research projects are incorporated into standards, codes and best practices.

The performance measure tracks the HPO's participation on national and provincial code committees, and involvement in the development and promotion of best practices and training courses.

Result: Target met.

Performance Measures, Targets and Results

Goal Four: Become a Strategic Centre for Building Industry Research cont'd

Resources Leveraged by the HPO Through Other Funding Partners

Year	Target	Actual
2002/03	At least twice amount invested by the HPO leveraged through partnerships	Contributions by partners represented 79% of total project funding
2003/04	At least twice amount invested by the HPO leveraged through partnerships	Contributions by partners represented 42% of total project funding
2004/05	At least twice amount invested by the HPO leveraged through partnerships	Contributions by partners represented 54% of total project funding
2005/06	**At least twice amount invested by the HPO leveraged through partnerships**	**Contributions by partners represented 49% of total project funding**
2006/07	At least twice amount invested by the HPO leveraged through partnerships	
2007/08	At least twice amount invested by the HPO leveraged through partnerships	
2008/09	At least twice amount invested by the HPO leveraged through partnerships	

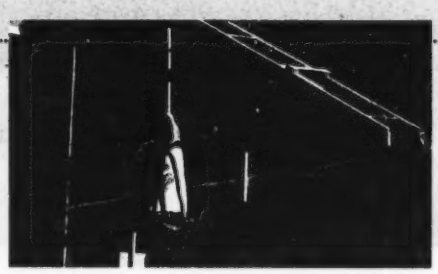
This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for projects that were completed or underway during the fiscal year.

Contributions by partners represented 49% of total project funding. This percentage for 2005/06 represents a decrease over the previous year.

Sixteen projects were completed or underway during the fiscal year representing an HPO funding commitment of approximately $177,350. Our partners committed an additional $169,200 to these projects for a total financial commitment of approximately $346,550. Nine of the 16 projects involved funding partnerships whereby contributions from partners represented 72% of total project funding which is consistent with the previous year.

Major funding partners in 2005/06 include: Canada Mortgage and Housing Corporation, Building Officials Association of BC, Sauder School of Business (UBC) and Polygon Homes Limited.

Result: Target not met.



Performance Measures, Targets and Results

Goal Five: An Aligned, Focused and Capable Organization

Timeliness of Licensing Decisions on Completed Applications

Year	Target	Actual
2002/03	5 business days or less	3.1 business days
2003/04	5 business days or less	3.6 business days
2004/05	3 business days or less	3.1 business days
2005/06	**3 business days or less**	**2.7 business days**
2006/07	3 business days or less	
2007/08	3 business days or less	
2008/09	3 business days or less	

This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions for completed applications for new licences. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders. Data is obtained through the HPO's Licence Information Management System database.

An average of 2.7 business days in 2005/06 represents a slight decrease compared to an average of 3.1 business days in the previous year. A total of 1,232 new residential builder licence applications were reviewed and processed in 2005/06, an increase of 19% over the previous year. Similarly license renewals were up 19% over the previous year, and owner-builder exemption requests rose by 7.6%

As was noted in an earlier performance measure, the 2005/06 builder survey found that 91% of builders were satisfied with the timeliness of licensing decisions.

The licensing approval process typically involves verification of company information, acceptance with a home warranty insurance provider and past residential construction activity.

HPO licensing timelines compare well with many similar organizations:

- Washington State contractor registration:
  - two days for applications that are mailed
  - one hour or less for walk-in registrations
- Maryland Home Builder Registration (similar requirements to B.C.) – five to seven days
- Tarion Warranty Corporation builder registration – two to four weeks.
- The Builders Registration Board of Western Australia – six to eight weeks

Result: Target met.

Performance Measures, Targets and Results

Goal Five: An Aligned, Focused and Capable Organization cont'd

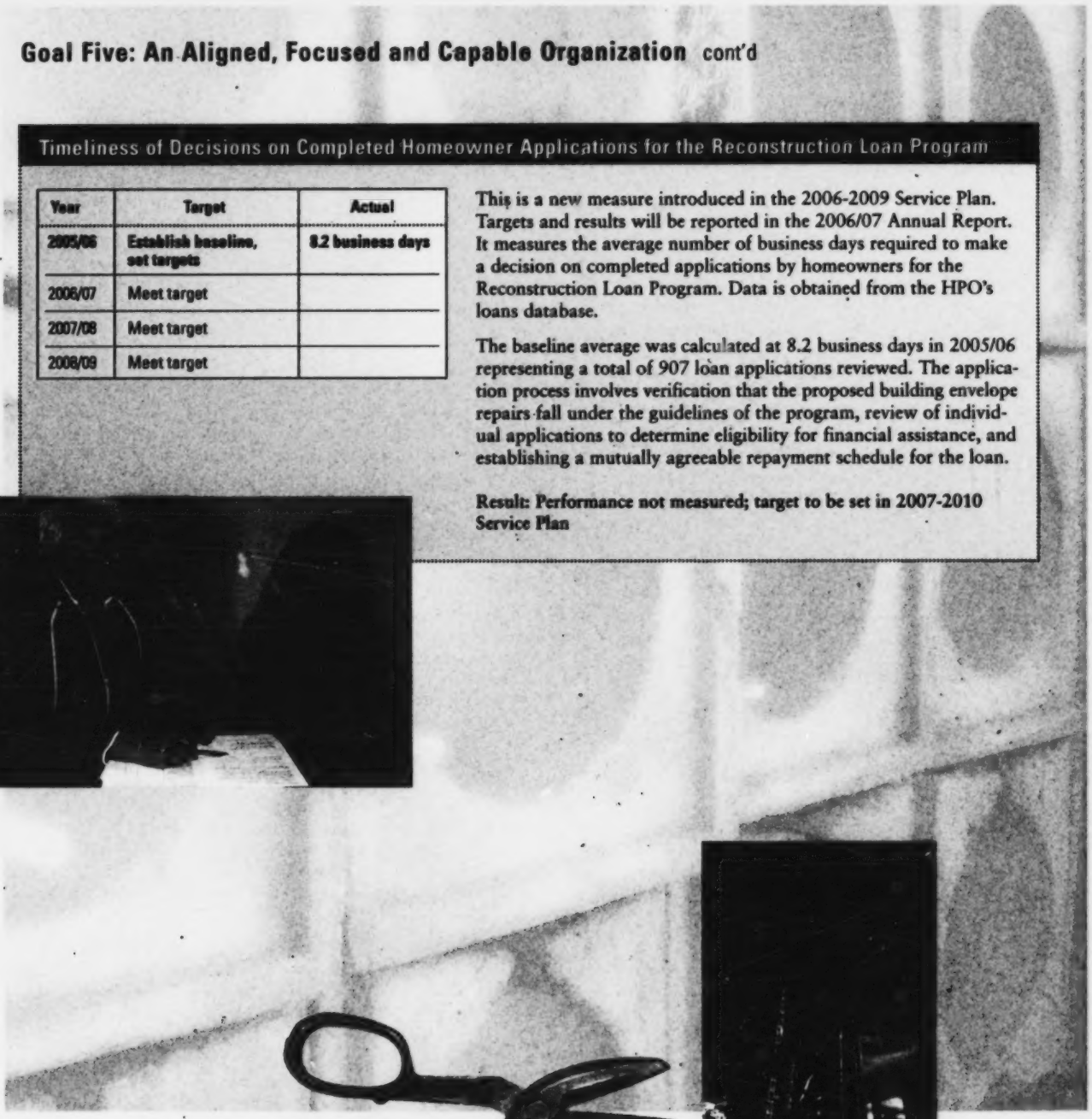
Timeliness of Decisions on Completed Homeowner Applications for the Reconstruction Loan Program

Year	Target	Actual
2005/06	Establish baseline, set targets	8.2 business days
2006/07	Meet target	
2007/08	Meet target	
2008/09	Meet target	

This is a new measure introduced in the 2006-2009 Service Plan. Targets and results will be reported in the 2006/07 Annual Report. It measures the average number of business days required to make a decision on completed applications by homeowners for the Reconstruction Loan Program. Data is obtained from the HPO's loans database.

The baseline average was calculated at 8.2 business days in 2005/06 representing a total of 907 loan applications reviewed. The application process involves verification that the proposed building envelope repairs fall under the guidelines of the program, review of individual applications to determine eligibility for financial assistance, and establishing a mutually agreeable repayment schedule for the loan.

Result: Performance not measured; target to be set in 2007-2010 Service Plan



Notes on Performance Measures and Data Sources

Description of Surveys

Survey of Licensed Residential Builders

The biennial survey of Licensed Residential Builders is the data source for several key performance measures. Carried out by a market research firm, the builder survey is a self-administered questionnaire sent to all Licensed Residential Builders in B.C. The response of 1,094 builders in the 2005/2006 survey provides a confidence level of 95% with a maximum margin of error of +/- 3.0%. The response of 968 builders in the 2003/2004 survey provides a confidence level of 95% with the maximum margin of error of +/- 3.2%.

Consumer Survey

The biennial consumer survey is the data source for several key performance measures. Carried out by a market research firm, the survey includes two separate groups of consumers, specifically 1) homeowners with warranty insurance under the *Homeowner Protection Act* on their home, and 2) prospective new home buyers. For the 2004/2005 consumer survey a total of 601 telephone interviews were conducted with owners of homes covered by warranty insurance. At the 95% confidence level, the maximum margin of error on the total homeowner sample is +/- 4.0%. In addition a total of 300 telephone interviews were conducted with B.C. residents who were considering buying newer homes (i.e. purchase a home with warranty insurance) over the next year. At the 95% confidence level, the maximum margin of error on the total prospective homebuyer sample is +/- 5.7%.

The 2002/2003 consumer survey followed the same methodology. A total of 602 telephone interviews were conducted with owners of homes covered by warranty insurance under the *Homeowner Protection Act*. At the 95% confidence level, the maximum margin of error on the total homeowner sample is +/ 4.0%. In addition a total of 363 telephone interviews were-conducted with B.C. residents who were considering buying newer homes (i.e. purchasing a home with warranty insurance) over the next year. At the 95% confidence level, the maximum margin of error on the total prospective homebuyer sample is +/- 5.1%.

Notes on Specific Performance Measures

Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements, and the owner-builder exemption

The targets for this performance measure were revised in the 2006-2009 Service Plan to 75% from 80% as described in the 2005-2008 Service Plan and 2004/05 Annual Report to reflect a more achievable yet realistic level of improvement.

Homebuyer awareness of consumer protections under the *Homeowner Protection Act*

The 2006/2007 target was adjusted in the 2006-2009 Service Plan to allow a more reasonable time-frame in which to attain the goal of 90% awareness of licensing and 70% awareness of warranty insurance. These targets were lowered by 10 percent for the 2006/2007 fiscal year (as compared to the targets shown in the 2005-2008 Service Plan and 2004/05 Annual Report) to reflect a more realistic level of improvement during the planning period.

Homeowner satisfaction with warranty insurance

The 2006/2007 target was adjusted in the 2006-2009 Service Plan to allow a more reasonable timeframe in which to attain the goal of 90% homeowner satisfaction with home warranty insurance. This target has been lowered by five percent for the 2006/2007 fiscal year (as compared to the targets shown in the 2005-2008 Service Plan and 2004/05 Annual Report) to reflect a more realistic level of improvement during the planning period.

Notes on Performance Measures and Data Sources

Recovery of Home Values Following Building Envelope Renovations

Assessed values of homes are adjusted on an annual basis by the B.C. Assessment Authority to reflect changes in market value of the homes and to take into account such factors as property improvements or renovations, and sales for comparable properties in the neighborhood. Assessment data offers the opportunity to track changes in home values including homes that have not been put on the market or sold by owners. It should also be noted that annual reporting for this measure includes a 6-month time lag due to the annual property assessment cycle, i.e., assessed values as of July 1 are used in the calculation.

The annual targets for this performance measure were increased in the 2006-2009 Service Plan to reflect the anticipated continued strong housing demand and rise in assessed values of homes. In addition, the calculation of this measure has been adjusted to reflect recovery of the full value of the cost of repairs in the assessed value of homes compared to the previous calculation of a recovery of 90 percent or more of the cost of repairs in the assessed value. The reason for this change is to simplify and improve the clarity of this measure.

Reconstruction Loan Default Rate

The 2006/07-2008/09 targets were changed in the 2006-2009 Service Plan to 1.5% from the previous target of 1.0% as described in the 2005-2008 Service Plan Update and 2004/05 Annual Report. This change was made to reflect a more realistic level of anticipated loan default rates.

Percentage of Homes Enrolled in Warranty Insurance with Claims within Industry Norms

The warranty insurance claims process is described under the *Homeowner Protection Act*. The homeowner must provide the warranty provider and residential builder written notice in reasonable detail that provides particulars of any specific defects covered by the home warranty insurance. Upon receipt of a notice of claim, a warranty provider must make reasonable efforts to respond, evaluate the claim and schedule any required repairs. During the evaluation, the warranty provider determines the validity of the claim, and notifies the owner of the decision and reasons for it.

Research Results and Best Practices Disseminated Through Symposiums, Seminars and Workshops

Previously, targets for this measure were for two-year periods recognizing that research initiatives often have time-frames that span one year periods. The 2006-2009 Service Plan, however, establishes annual targets to improve the frequency of reporting on this performance measure.

Assessment data offers the opportunity to track changes in home values including homes that have not been put on the market or sold by owners.

Alignment with the Provincial Government's Strategic Plan

This annual report describes the HPO's performance towards achieving its five key goals:

1. Professionalization of the residential construction sector
2. Informed and protected consumers
3. Continued viability of the home warranty insurance system
4. Become a strategic centre for building industry research, and
5. An aligned, focused and capable organization.

These goals are closely aligned with the goals stated in the Province's 2006/07 – 2008/09 Strategic Plan. This plan includes the goal "to create more jobs per capita than anywhere else in Canada."

The residential construction sector is a major economic driver in the province, contributing to the province's gross domestic product at a level that is comparable to other major industries such as forestry and the utilities. Strong consumer confidence in the residential construction sector contributes to greater demand for new homes and, thus, creates new, higher paying jobs and employment opportunities for British Columbians.

Consumer confidence and a healthy residential construction sector also support other sectors of the provincial economy such as the forest industry by stimulating demand for wood products.

The goals are consistent with the Ministry of Forest and Range's service plan to develop a long-term strategy to rationalize and modernize the building safety regulatory system. These goals are also aligned with the Housing Department's service plan goal for a safe built environment where the social, economic and safety interests of participants are balanced.

BRITISH COLUMBIA
www.gov.bc.ca

These goals are closely aligned with the goals stated in the Province's 2006/07-2008/09 Strategic Plan.

BRITISH COLUMBIA

Glossary of Terms

Building envelope – the assemblies, components and materials of a building that are intended to separate and protect the interior space of the building from the adverse effects of exterior climatic conditions.

Building envelope renovation – construction work on a residential building to:

1. repair defects in the building envelope which allow unintended water penetration, or
2. repair damage caused by unintended water penetration.

Building envelope renovator – a residential renovator who is licensed under Part 1 of the *Homeowner Protection Act* to engage in, arrange for or manage all, or substantially all, of a building envelope renovation.

Futures Report – a document containing the HPO Board of Directors' recommendations for the future of the *Homeowner Protection Act* and regulations as well as the Homeowner Protection Office.

Owner-builder – an individual who builds a single, detached home for their own personal use, not more than once in an 18-month period.

Premature building envelope failure – premature deterioration of the building envelope assembly resulting from environmental factors including airflow, radiant energy, water vapour, rain and snow.

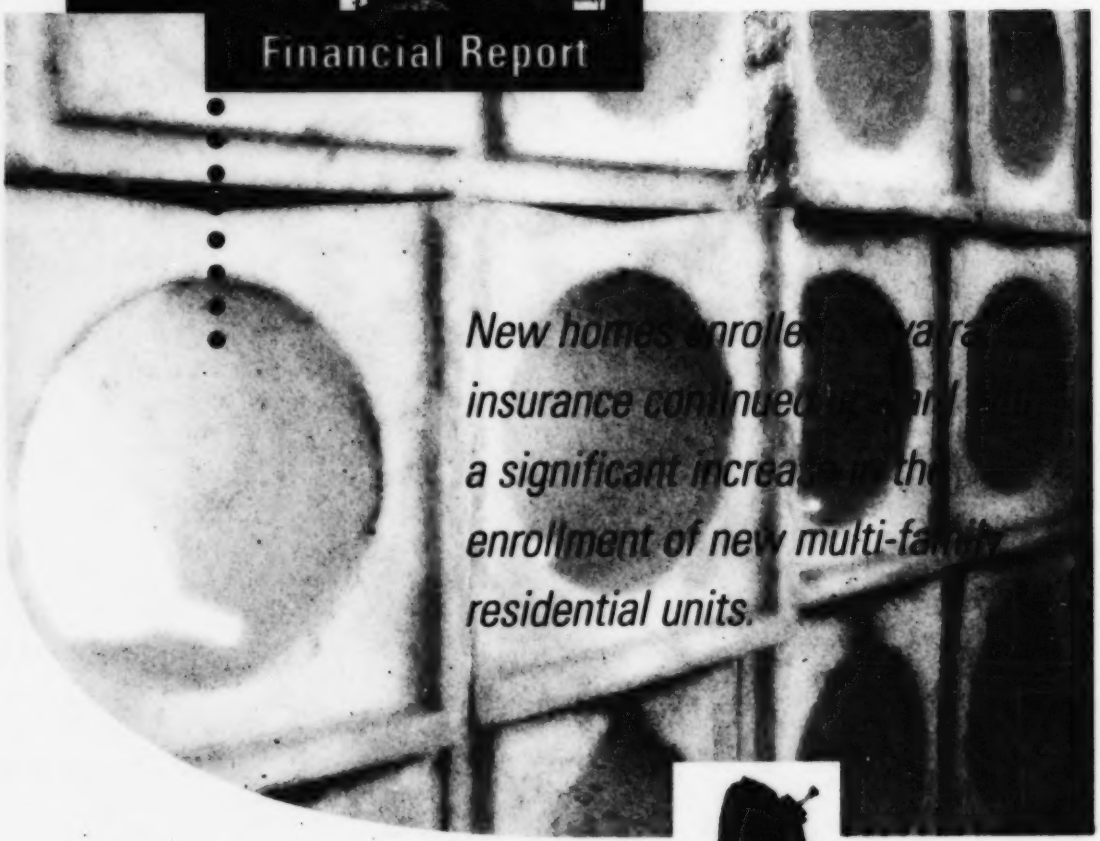
Residential builder – a person who engages in, arranges for or manages all or substantially all of the construction of a new home, and includes a developer and a general contractor.

The Futures Report is a document containing the HPO Board of Directors' recommendations for the future of the Homeowner Protection Office.

Homeowner
Protection Office

31 March 2006

Financial Report



New homes enrolled in warranty insurance continued to grow and a significant increase in the enrollment of new multi-family residential units.

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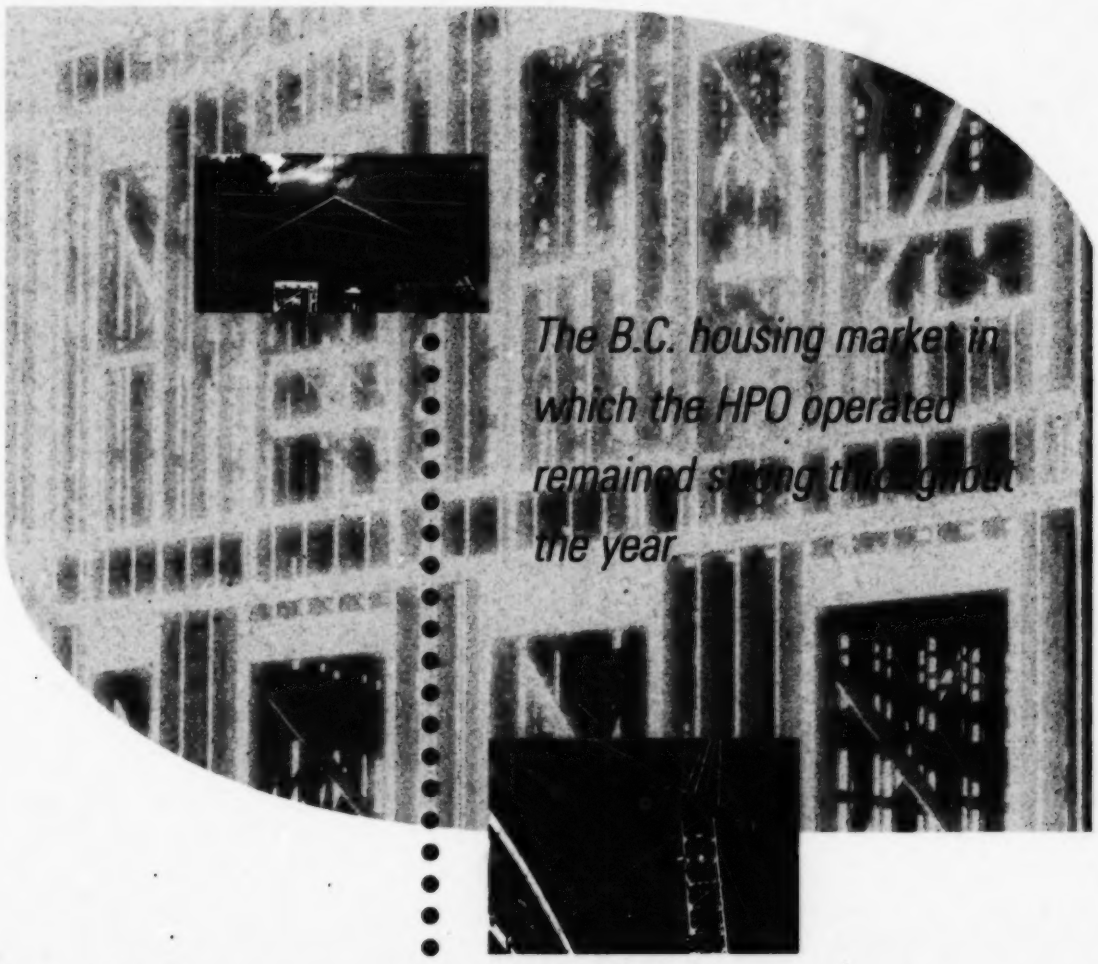

The B.C. housing market in which the HPO operated remained strong throughout the year.

Management Discussion and Analysis

Overview

Revenues collected from residential builder license fees provide the funding for the Homeowner Protection Office's (HPO) programs with the exception of the Reconstruction Loan Program and the PST (Provincial Sales Tax) Relief Grant Program. The Reconstruction Loan Program is funded by a reconstruction levy on new residential units in multi-unit buildings constructed in the coastal climate zone. When demand for financial assistance is greater than the revenues collected from the reconstruction levy, the HPO receives bridge financing from the Province of British Columbia. The HPO is required to repay these borrowings over time. The PST Relief Grant Program is administered by the HPO on behalf of the Province of British Columbia and the Province funds all expenditures under this program.

The B.C. housing market in which the HPO operates remained strong throughout the year. New homes enrolled in warranty insurance continued upward with a significant increase in the enrollment of new, multi-family residential units. The number of licensed builders rose slightly over the same time period from last year. The demand for financial assistance decreased over last year; however, the average value of repair loans rose significantly as a result of rising costs in the residential construction sector, owner delays in repairs resulting in additional damage and the expected higher proportion of loans involving high-rise remediation. These factors resulted in an increase in both revenues and expenditures.

Net Operating Results

Net income was up $3.1 million from a net income of $4 million in 2004/05 to $7.1 million in 2005/06. While revenues increased $3.7 million from $24.9 million in 2004/05 to $28.6 million in 2005/06, expenditures rose modestly, up $0.5 million from $20.9 million in 2004/05 to $21.4 million in 2005/06. This rise in expenditures was moderated by a reduction in the loan loss provision in the amount of $1.2 million. Although most expenditure categories experienced increases due to increased demand for services, expenditures on reconstruction loan grants experienced a significant rise as a result of the rising cost of repairs. The actual net income is substantially higher than the budget net income due to a stronger housing market than anticipated. (See table below showing the changes in net operating results.)

	Net Operating Results										
	Actual 2005/2006 ($000's)	**Actual % change to actual over last year**	**Budget 2005/2006 ($000's)**	**Actual % to Budget 2005/2006**	**2004/2005 ($000's)**	**Actual % change to actual over last year**	**2003/2004 ($000's)**	**Actual % change to actual over last year**	**2002/2003 ($000's)**	**Actual % change to actual over last year**	**2001/2002 ($000's)**
Revenues	**28,569**	**14.6**	**27,138**	5.3	**24,940**	2.5	**24,339**	3.8	**23,444**	23.3	**19,016**
Expenditures	**21,440**	**2.8**	**24,596**	(12.8)	**20,864**	5.9	**19,702**	(1.1)	**19,917**	2.1	**19,499**
Net income (loss)	**7,129**	**74.9**	**2,542**	180.4	**4,076**	(12.1)	**4,637**	31.5	**3,527**	830.2	**(483)**

Management Discussion and Analysis cont'd

General Operating Program Results

Research and Education, and Licensing programs are funded by residential builder license fees.

Expenditures on industry research and education, and consumer information are close to last year's expenditures at $0.5 million. Revenues from license fees rose significantly, up $0.4 million in 2005/06 to $3.5 million from $3.1 million in 2004/05 as a result of a continued strong housing market. Expenditures on licensing and compliance activities increased $0.4 million to $2.2 million in 2005/06, up from $1.8 million in 2004/05. Increased expenditures were mainly attributable to increased staffing costs to process an increased volume of license applications and owner-builder exemption applications. Additional expenditures in the 2005/06 year were also incurred as a result of conducting public consultation and industry collaboration on the HPO's "Raising the Bar" initiative.

Financial Assistance Program Results

The HPO provides financial assistance through its Reconstruction Loan Program and administers the PST (Provincial Sales Tax) Relief Grant Program.

PST Relief Grant Program

The PST Relief Grant Program provides a rebate on completed building envelope renovations and is available to owners of condominiums, townhouses, detached homes and housing co-operatives. This program is administered on behalf of the Province of British Columbia. PST Relief Grant payments are down from $3.3 million in 2004/05 to $2.9 million in 2005/06. The PST Relief Grant Program experiences fluctuations in the total value of grant payments as payments are made upon completion of eligible repairs subject to advance approval of the grant application. As grant applications may be submitted at any time, increases (decreases) may not necessarily indicate a trend. (See table below showing the changes in the value of PST Relief Grant payments.)

	Value of PST Relief Grant Payments								
	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)	% Change over last year	2001/2002 ($000's)
Grant payments	2,874	(12.1)	3,271	30.8	2,501	(19.5)	3,107	42.4	2,182

Reconstruction Loan Program

The HPO continues to provide financial assistance to all eligible homeowners to meet the demand as homeowners repair leaky units. Although the demand for financial assistance continues, a decline in the number of approved loans of 25% over last year, excluding housing co-operative repair loans, was experienced. A downward trend in the demand for financial assistance is being experienced in all loan categories and may be influenced by the rising repair costs and the decisions of homeowners to delay repairs. The fluctuations in the number of loans issued occur normally due to the timing of when strata councils approve the repair costs. It is anticipated that a spike in loans may occur if repair costs

Management Discussion and Analysis cont'd

stabilize or the urgency for the repairs override the desire to delay repairs. The number of housing co-operative repair loans approved as expressed in units decreased when compared to last year, mainly due to the cancellation of one 61-unit repair project by CMHC even given the possible repair and accessible reconstruction loan. This category of repair loans experiences a high degree of swings in the number of approved repair loans due to a variety of factors including long lead times before reconstruction begins. (See table below showing the changes in the annual number of approved loans expressed in units.)

	Number of Approved Reconstruction Loans (expressed in units)								
	2005/2006	% Change over last year	2004/2005	% Change over last year	2003/2004	% Change over last year	2002/2003	% Change over last year	2001/2002
HPO mortgages and deferred payment loans	411	3.0	399	3.9	384	(28.8)	539	10.5	488
Financial institutions no-interest loans	423	(40.7)	713	4.4	683	(36.6)	1,077	(1.7)	1,096
Total HPO & financial institutions loans	834	(25.0)	1,112	4.2	1,067	(34.0)	1,616	2.0	1,584
Total co-op repair loans administered by CMHC	100	(57.8)	237	(64.5)	667	373.0	141	(66.3)	419

The average value of the issued loan amounts continued an upward trend that resulted in an increase in expenditures in the Reconstruction Loan Program. For example, the average reconstruction loan for all three categories in the table below rose 20% from last year's average, which experienced an average 16% rise in 2004/2005. The average value per unit of issued reconstruction loans is now $54,000 versus $45,000 in 2004/2005, up significantly from $39,000 in 2003/04. The per unit value of approved housing co-operative repair loans also increased 10.9% over last year's cumulative average loan amount of $56,173 to $62,300 due to the continued rising repair costs. This trend is due to a multitude of factors including the continued rising repair costs associated with labour and materials. (See table below showing the average value per unit of issued reconstruction loans independent of housing co-operative loans.)

	Average Value per Unit of Issued Reconstruction Loans								
	2005/2006	% Change over last year	2004/2005	% Change over last year	2003/2004	% Change over last year	2002/2003	% Change over last year	2001/2002
HPO mortgages	$ 59,658	25.9	$ 47,393	14.5	$ 41,383	14.5	$ 36,133	21.0	$ 29,855
HPO deferred payment loans	$ 50,823	11.7	$ 45,509	27.9	$ 35,585	(13.9)	$ 41,307	53.9	$ 26,845
Financial institutions no-interest mortgages	$ 51,558	21.6	$ 42,411	5.2	$ 40,308	12.8	$ 35,746	30.6	$ 27,361

Management Discussion and Analysis cont'd

Rising interest rates and rising average value of reconstruction repair costs in the 2005/06 year resulted in a significant increase in subsidy interest payments, which the HPO paid to financial institutions and CMHC holding no-interest repair loans. The total interest subsidy costs increased 12.5% from $4.4 million in 2004/05 to $4.9 million in 2005/06. A significant increase in interest subsidy costs was experienced in the housing co-operative repair loan category arising from an increase of $24 million in the total value of loans approved to date over last year and rising interest rates.

Mortgages held by financial institutions are based on the bank's prime lending rate for a five-year term. The average annual prime-lending rate in 2005/06 was 4.7%, up from 4% in 2004/05.

Interest is paid on housing co-operative loan advances made during the repair period at a construction-floating rate set by CMHC. In 2005/06, the average construction-floating rate was 2.9%. On completion of the repairs, the interest rate is set by CMHC at an interest rate equal to the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75%. On a year-to-date basis, interest rates for post-interest adjustment dates range from a low of 3.47% to a high of 5.50%. (See table below showing the changes in interest subsidy costs.)

	Value of Interest Subsidy Costs								
	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)	% Change over last year	2001/2002 ($000's)
Financial institutions	4,021	8.7	3,700	(16.4)	4,427	18.6	3,734	17.0	3,191
CMHC	893	33.3	670	5.3	636	2.7	619	68.2	368
Total interest subsidy costs	4,914	12.4	4,370	(13.7)	5,063	16.3	4,353	22.3	3,559

Total revenues for the Reconstruction Loan Program rose significantly over last year. The continued high volume of new multi-unit construction activity in the coastal climate zone resulted in an 18.9% increase over last year in reconstruction levies collected. A total of $15.1 million was collected in 2005/06, up from $12.7 million in 2004/05. Loan discount recoveries were up reflecting the ongoing repayment of HPO loans. Recoveries are up 18.2% over last year, mainly due to the strong residential housing market and the increasing value of units. (See table below showing the changes in Reconstruction Loan Program revenues.)

	Revenues under the Reconstruction Loan Program								
	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)	% Change over last year	2001/2002 ($000's)
Reconstruction levies	15,065	18.9	12,675	24.0	10,224	43.0	7,150	46.8	4,872
Federal contributions	–	–	–	(100.0)	4,490	(34.8)	6,890	(5.6)	7,298
Loan discount recoveries and other	6,806	18.3	5,752	43.2	4,016	37.5	2,921	66.6	1,753
Total revenues	21,871	18.7	18,427	(1.6)	18,730	10.4	16,961	21.8	13,923

Management Discussion and Analysis cont'd

Funds for repair loans advanced throughout the year on behalf of eligible homeowners continued to exceed the incoming funds to operate the Reconstruction Loan Program. This resulted in increased short-term borrowing from the Province of British Columbia by the HPO throughout the year bringing the total cumulative debt obligation to $31.8 million as at March 31st, 2006 up from $28.4 million in the same period last year. The total current cumulative debt obligation includes accrued interest and a $0.4 million no-interest PST Relief Grant Operating Advance. It is anticipated that the HPO will repay the bridge financing loans provided by the Province of British Columbia over time with incoming reconstruction levies collected in the ensuing years. (See table below showing the changes in short term borrowing obligations.)

	HPO Short-term Debt and Advances Due to the Province of B.C.								
	2005/2006 ($000's)	% Change over last year	2004/2005 ($000's)	% Change over last year	2003/2004 ($000's)	% Change over last year	2002/2003 ($000's)	% Change over last year	2001/2002 ($000's)
Balance outstanding on March 31st	31,816	12.1	28,388	12.6	25,214	0.4	25,124	1.4	24,775

In addition to its debt obligations, the HPO has a commitment to pay the subsidized interest costs on behalf of eligible homeowners for all repair loans provided by financial institutions and CMHC for housing co-operative repair loans. The present value of interest to be paid in the future by the HPO on subsidized interest loans approved is $81.7 million in 2005/06 up from $75.1 million in 2004/05. This is mainly due to rising interest rates and an increase in the total approved value of the housing co-operative repair loans.

The HPO expects a continuation of the strong housing market. It is anticipated that the existing level of revenues from reconstruction levies and license fees will be maintained as a result of the continued strong housing market. The continuation of a strong housing market will also make it easier for homeowners to sell their repaired homes and repay their no-interest loans, positively impacting loan discount recoveries. Expenditures will likely trend upward in a rising construction cost environment and as the HPO implements the directions approved in the Futures Report which articulated the HPO Board's recommendations for the future of the *Homeowner Protection Act* and Homeowner Protection Office.

Statement of Management Responsibility

The financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements of the Homeowner Protection Office (HPO) have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The HPO's external auditors independently perform such tests of the system of internal controls, as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which comprises directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.

Ken Cameron
Chief Executive Officer

Linda McKay
Manager, Finance and Administration

April 28, 2006

Auditors' Report

To the Directors of
Homeowner Protection Office

And

To the Minister of Forests and Range and the
Minister Responsible for Housing

We have audited the balance sheet of the Homeowner Protection Office (HPO) as at March 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the HPO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the HPO as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
April 28, 2006

As at March 31, 2006

Balance Sheet

(expressed in thousands of dollars)

	2006 $	2005 $
Assets		
Current assets		
Cash	749	362
Cash for Reconstruction Loan and PST Relief Grant programs (note 3)	2,665	1,618
Due from Province of British Columbia (note 4)	295	255
Accounts receivable	769	1,097
Prepaid expenses	42	43
Current portion of loans receivable (note 3)	2,492	2,339
	7,012	5,714
Loans receivable (note 3)	41,296	33,477
Capital assets (note 5)	42	91
	$ 48,350	$ 39,282
Liabilities and Surplus		
Current liabilities		
Accounts payable and accrued liabilities	756	945
Loan loss provision (note 3)	2,880	4,180
Due to Province of British Columbia (note 6)	31,816	28,388
	35,452	33,513
Net assets		
Invested in capital assets	42	91
Unrestricted	12,856	5,678
	12,898	5,769
	$ 48,350	$ 39,282

Commitments (notes 3(f) and 7)

Approved by the Board of Directors

_____ **Director**

_____ **Director**

The accompanying notes form an integral part of these financial statements.

For the year ended March 31, 2006

Statement of Operations

(expressed in thousands of dollars)

	2006 $	2005 $
Revenues		
Reconstruction levies	15,065	12,675
Loan discount recoveries	6,669	5,642
License fees	3,476	3,051
Provincial contributions	3,146	3,396
Interest	165	143
Other	48	33
	28,569	24,940
Expenditures		
Reconstruction loan grants (note 3(b))	9,296	8,208
Interest subsidy (note 3(a))	4,914	4,370
PST Relief Grants	2,874	3,271
Salaries and wages	2,548	2,224
Travel, office and other	1,228	1,012
Interest and fees	896	672
Legal and professional fees	227	201
Communications and printing	217	147
Rent and utilities	203	208
Consumer and industry education	77	82
Depreciation	71	103
Research	68	71
Loan Loss provision	(1,179)	295
	21,440	20,864
Excess of revenues over expenditures	7,129	4,076

The accompanying notes form an integral part of these financial statements.

For the year ended March 31, 2006

Statement of Changes in Net Assets

(expressed in thousands of dollars)

	Invested in capital assets $	Unrestricted $	2006 Total $	2005 Total $
Balance – Beginning of year	91	5,678	5,769	1,693
Excess of revenues over expenditures	(71)	7,200	7,129	4,076
Investment in capital assets	22	(22)	–	–
Balance – End of year	42	12,856	12,898	5,769

The accompanying notes form an integral part of these financial statements.

For the year ended March 31, 2006

Statement of Cash Flows

(expressed in thousands of dollars)

	2006 $	2005 $
Cash flows from operating activities		
Cash received from		
Residential builders for reconstruction levies	15,381	12,518
Homeowners for principal-only payments on loans	14,256	11,967
Residential builders for license fees	3,492	3,101
Province of British Columbia for programs	3,237	3,158
Interest	168	134
Partners in funding research and education activities	48	25
Cash paid for		
Homeowners for reconstruction loans	(24,856)	(21,809)
Financial institutions for interest on CMHC-insured loans	(5,040)	(4,334)
Suppliers and employees	(4,768)	(3,827)
Homeowners for PST Relief Grants	(2,874)	(3,271)
Province of British Columbia for loan interest	(814)	(671)
Financial institutions for defaults on CMHC-insured loans	(120)	(345)
	(1,890)	(3,354)
Cash flows from investing activities		
Purchase of capital assets	(22)	(66)
Cash flows from financing activities		
Proceeds from borrowing	2,946	3,173
Province of British Columbia for PST Relief Grant program	400	–
	3,346	3,173
Increase (Decrease) in cash	1,434	(247)
Cash – Beginning of year	1,980	2,227
Cash – End of year	3,414	1,980
Represented by		
Cash	749	362
Cash for Reconstruction Loan and PST Grant Relief programs (note 3)	2,665	1,618
	$ 3,414	$ 1,980

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements

1. General

The Homeowner Protection Office (HPO) was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the "*Act*"). The purposes of the *Act* are:

- to license residential builders and other persons required to be licensed under the *Act*;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Loan Program to provide financial assistance to eligible homeowners for home reconstruction.

The license fees collected, including a per unit license fee for new or building envelope renovated dwelling units, fund all of the operations of the HPO except for the Reconstruction Loan and PST (Provincial Sales Tax) Relief Grant Programs. The Province provides a contribution to the Office to cover the administration costs and grant payments of the PST Relief Grant Program. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

2. Significant accounting policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are noted below.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and the estimated useful lives of capital assets. Actual results could differ from the estimates.

Capital assets

Capital assets are recorded at cost and depreciated on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	three years
Leasehold improvements	over the lease term
All other capital assets	five years

No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the HPO are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of the grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial government borrowing rate for equivalent terms. Present value discounts are recorded as a grant expense. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

Notes to Financial Statements cont'd

Canada Mortgage and Housing Corporation (CMHC)-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the HPO has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $375 million. Accordingly, the HPO's loan loss provision reflects a provision for CMHC-insured loans (note 3).

Loan loss provision

The loan loss provision consists of an amount that is established for specific impaired loans and a non-specific allowance to provide for losses inherent in the loan portfolio for which a specific allowance cannot yet be determined. The loan loss provision is made to reduce the carrying amount of individual loans recorded in the amounts of the HPO to their estimated realizable amount, and also provides for estimated loan losses incurred on CMHC-insured loans.

Financial dependence

The HPO is financially dependent on the Province of British Columbia for its financing and ability to borrow funds for operations (note 6).

Federal and provincial taxes

The HPO is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

Cash

Cash consists of cash held in accounts with financial institutions.

Cash for reconstruction and PST programs

Cash consists of cash amounts, restricted as to use (note 3).

3. Reconstruction Loan

Under the *Act*, money paid to the credit of the Reconstruction Loan Program must only be used for the purposes of the program. Accordingly, cash balances for this program are segregated and shown separately on the Balance Sheet.

Under the Reconstruction Loan Program, financial assistance is provided to homeowners who cannot afford to pay or obtain conventional financing for repairs to their homes with premature building envelope failure. Mortgages are registered against the title of the homes to be repaired as security for the financial assistance granted. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

Notes to Financial Statements cont'd

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the HPO approves loans to homeowners for repairs to homes with premature building envelope failure and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The HPO pays interest on the homeowner's behalf to the financial institution at the prime borrowing rate of the lender. This interest is included in the interest subsidy in the Statement of Operations.

ii) Housing co-operatives

Under an agreement with CMHC, the Office approves loans to housing co-operatives with premature building envelope failure. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75% per annum, compounded semi-annually in arrears. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy in the Statement of Operations.

The HPO has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the HPO with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the Balance Sheet of the Office.

b) No-interest loans through the HPO

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the HPO provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the HPO are not CMHC-insured. The net present value of these loans is included in loans receivable in the Balance Sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the Statement of Operations.

c) Deferred payment loans through the HPO

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Loan Program, but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the HPO may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the home owner resides in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan, then the shortfall may be forgiven. The net present value of these deferred payment loans is included in loans receivable in the Balance Sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the Statement of Operations.

Notes to Financial Statements cont'd

d) The HPO approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000's)	Financial Assistance Reported on the Balance Sheet 2006 ($000's)	Financial Assistance Reported on the Balance Sheet 2005 ($000's)
Subsidized interest loans				
Homeowners (note 3a(i))	8,126	240,149	-	-
Housing co-operatives (note 3a(ii))	54*	186,464	-	-
No-interest loans (note 3(b))	1,830	73,299	73,299	55,474
Deferred payment loans (note 3(c))	1,535	50,859	50,859	42,828
Total loans approved	11,545	550,771	124,158	98,302
Less:				
Loans approved but not yet issued				
Homeowners		(34,269)	(24,460)	(11,523)
Housing co-operatives		(155,752)	-	-
Present value discount		(26,020)	(26,020)	(23,339)
Loan loss provision		(2,880)	-	-
Loan write-offs		(3,038)	(246)	(256)
Loan repayments		(178,388)	(29,644)	(27,368)
Loans receivable		150,424	43,788	35,816
Less: Current portion			(2,492)	(2,339)
Loans receivable			41,296	33,477

(*) The 54 approved co-operative loans comprises 2,993 homes.

e) The revenues and expenditures of the Reconstruction Loan Program were as follows:

	2006 ($000's)	2005 ($000's)
Revenues		
Reconstruction levies	15,065	12,675
Loan discount recoveries	6,669	5,642
Interest	121	110
Provincial contributions	16	-
	21,871	18,427
Expenditures		
Reconstruction loan grants	9,296	8,208
Interest subsidy	4,914	4,370
Administrative costs	1,206	993
Interest and fees	860	644
Loan loss provision	(1,179)	295
	15,097	14,510
Excess of program revenues over expenditures	6,774	3,917

Notes to Financial Statements cont'd.

f) The present value of the interest to be paid in the future by the HPO on the subsidized interest loans approved comprises:

	2006 ($000's)	2005 ($000's)
Loans held by financial institutions	31,644	30,515
Housing co-operative repair loans – issued	7,064	4,699
Housing co-operative repair loans – approved but not issued	42,992	39,922
	81,700	75,136

Loans held by financial institutions are amortized over a 15-year period. Housing co-operative repair loans are amortized over a 40-year period.

Loans were approved, but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the building envelope or had not yet passed the final special assessment for the cost of the repairs. It is uncertain if CMHC will access each housing co-operative loan approved by the HPO due to their independent determination of housing co-operative viability.

4. Due from the Province of British Columbia

This account receivable includes interest due from the Province of British Columbia (the Province) representing interest earned on the Office's balance of its overnight bank deposits in the Province's offset interest program, and reimbursement of PST Relief Grant payments made on behalf of the Province. The Province's offset interest program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75% approximately one month in arrears. Under the agreement between the Province and the Office, the Province reimburses the HPO on a monthly basis for all PST Relief Grant payments made to eligible homeowners.

	2006 ($000's)	2005 ($000's)
PST Relief Grant reimbursement	147	238
Other provincial contributions	137	-
Offset interest earned	11	15
Other	-	2
Total	295	255

Notes to Financial Statements cont'd

5. Capital assets

	Cost ($000's)	Accumulated Depreciation ($000's)	2006 Net Book Value ($000's)	2005 Net Book Value ($000's)
Office furniture and equipment	285	(280)	5	7
Computer hardware	298	(271)	27	58
Leasehold improvements	173	(173)	-	-
Computer software	177	(171)	6	14
Vehicles	40	(36)	4	12
	973	(931)	42	91

6. Due to Province of British Columbia

The HPO has the authority to borrow up to a maximum of $75 million from the Province to fund operatons and the Reconstruction Loan Program. The HPO's Board of Directors has approved borrowing to a maximum of $55 million.

At March 31, 2006, the HPO had borrowed $31.8 million made up of short-term borrowings which comprised $7.3 million due on April 6, 2006 with interest accrued at 3.38% per annum, $3 million due on April 18, 2006 with interest accrued at 3.55% per annum, $5 million due on May 10, 2006 with interest accrued at 3.59%per annum, $8.9 million due May 15, 2006 with interest accrued at 3.63% per annum, $7.2 million due June 12, 2006 with interest accrued at 3.73% per annum, and $0.4 million due for payment on March 31, 2007 without interest.

7. Commitments

The HPO is committed in the normal course of business to paying interest on homeowners' behalfs to financial institutions at the prime rate of the lender. The actual interest subsidy payment amounts made and the present value of interest amounts to be paid in the future are disclosed in note 3.

During 2005, the HPO entered into an operating lease for its office premises, which expires on January 31, 2011. At March 31, 2006, the Office has minimum rental obligations under operating leases for office premises as follows:

Year ending March 31	($000's)
2007	201
2008	207
2009	213
2010	219
2011	187
	1,027

The rental payments and operating costs are disclosed in the Statement of Operations.

Notes to Financial Statements cont'd

8. Related party transactions

In the normal course of operations the HPO acquires goods and services from the Province of British Columbia under prevailing trade terms. Amounts due to/from the Province of British Columbia and income and expenses during the year are disclosed in the Balance Sheet and Statement of Operations respectively.

9. Financial instruments

The financial instruments of the HPO consist of cash, balances due to and from the Province of British Columbia, accounts receivable, loans receivable, and accounts payable. The fair values of balance sheet items, which are highly liquid or short-term in nature, approximate their carrying value. The fair value of loans receivable and amounts due to and from the Province of British Columbia are not practicable to determine.

The HPO's financial instruments are exposed to credit and interest rate risk. Credit risk is the risk that the HPO will incur a loss because of default of a reconstruction loan. Interest rate risk is the risk that the interest the Office pays may change with the fluctuations in the market interest rates. Risk management policies have been implemented by the management. These policies include evaluating the eligibility for assistance under the Reconstruction Loan Program, securing the loan with a charge on title, and subsequently evaluating renewal requests, and regularly monitoring the loans.

10. Employee benefit plans

The HPO provides a defined benefit pension plan and other post-retirement benefits to all of its employees.

The HPO contributes to the Public Service Pension Plan (the plan), a jointly trusteed pension plan, to which employees and employers of the public service contribute. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The plan has about 51,000 active plan members and approximately 30,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The latest valuation as at March 31, 2005, indicated an unfunded liability of $767 million for basic pension benefits. The next valuation will be as at March 31, 2008, with results available in 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Homeowner Protection Office paid $136,815 for employer contributions to the plan during the year (2005 - $124,600).

Under the terms of their employment, employees of the HPO are also entitled to termination and other post retirement benefits that include health care benefits which are provided under public service benefit plans.

Defined contribution plan accounting is applied to these benefit plans as the HPO has insufficient information to apply defined benefit plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

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